



ACADIAN TIMBER INCOME FUND

Annual Information Form

March 27, 2009

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CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

This Annual Information Form 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 Acadian Timber Income Fund and its subsidiaries (“Acadian”), 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 in the section entitled “Risk Factors” on page 21.

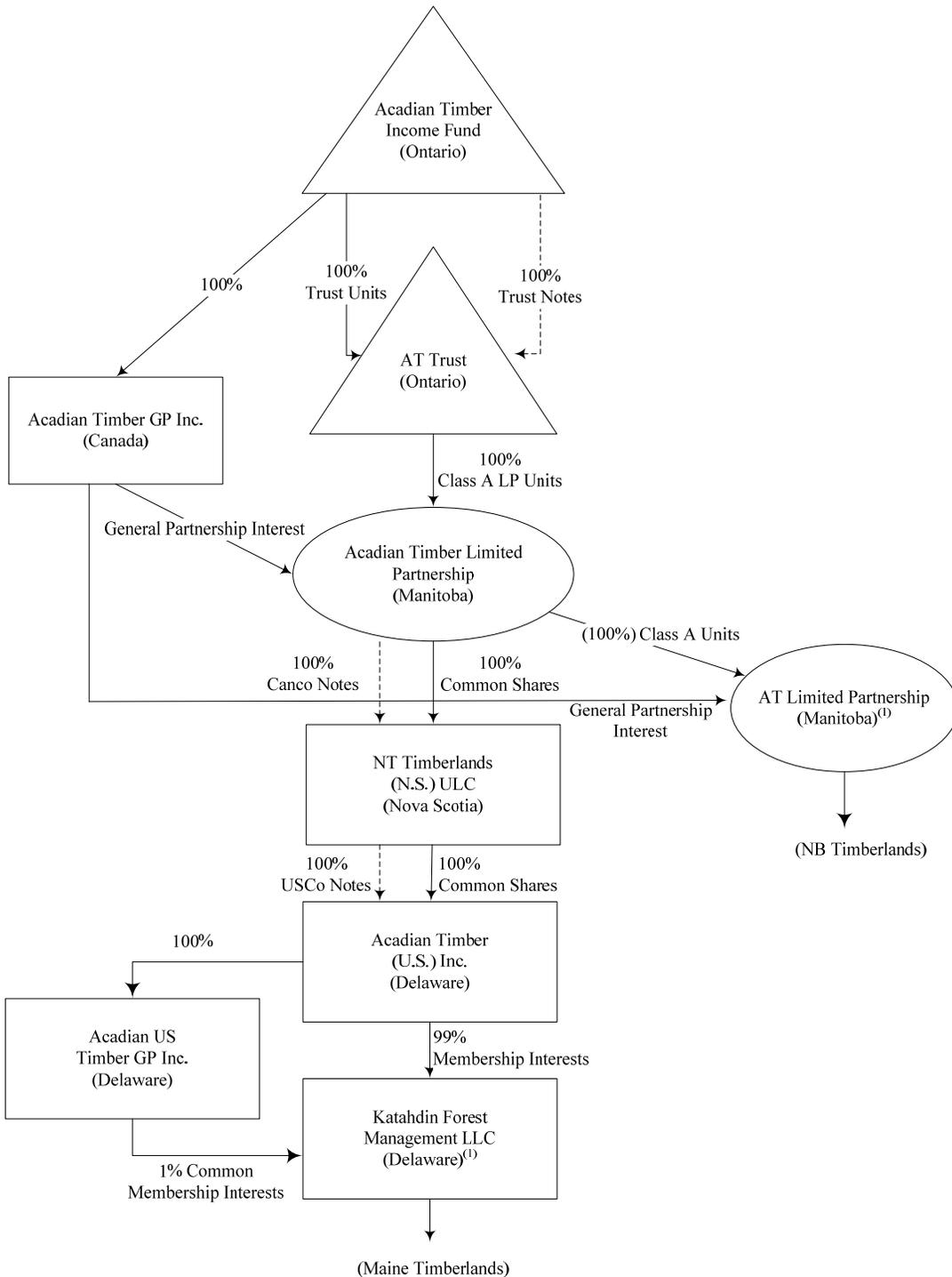
Although the forward-looking statements contained in this Annual Information Form are based upon what management believes are reasonable assumptions, these forward looking-statements should not be relied upon as representing Acadian’s view as of any date subsequent to the date of this document. These forward-looking statements are made as of the date of this Report, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

THE FUND

Acadian Timber Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated December 15, 2005 (the “Fund Declaration of Trust”). The business of the Fund and its subsidiaries, is the supply of primary forest products to the forest products industry in Eastern Canada and the North Eastern U.S. primarily through harvesting of the NB Timberlands and Maine Timberlands.

The Fund is publicly traded reporting issuer on the TSX under the stock symbol ADN.UN. The principal and head office of the Fund, the Trust, the GP and the LP are located at Suite 300, Brookfield Place, 181 Bay Street, Toronto, Ontario M5J 2T3.

The following chart illustrates the structure of the Fund (including jurisdiction of establishment/incorporation of the various entities):



Notes:

(1) The Acadian Timberlands are managed by Brookfield Timberland Management LP.

DEVELOPMENT OF THE BUSINESS

Origins of the Business

Acadian Timber Income Fund is a leading supplier of primary forest products to the forest products industry in Eastern Canada and the Northeastern U.S. The Fund manages timberlands in New Brunswick and Maine that have been harvested historically and are now managed jointly by the Fund.

On January 31, 2006 Acadian completed an initial public offering of Units, issuing 8,450,643 units at \$10.00 per unit raising gross proceeds in the offering of \$84.5 million. Acadian used the proceeds of the offering to acquire:

- (a) the NB Timberlands and related assets from Fraser Papers Inc. in exchange for \$108 million and 3,613,780 Class B Units of Acadian Timber Limited Partnership (the “Operating LP”); and
- (b) all the common membership interests of Katahdin Forest Management LLC (“KFM LLC”), owner of the Maine Timberlands, from subsidiaries of Brookfield for \$9 million. Brookfield retained an indirect interest in KFM LLC of 4,507,030 Class B Interests.

Acadian also entered into a Management Agreement with Brookfield Timberlands Management LP (the “Manager”) and certain service and supply and agreements with Fraser Papers. See “Principal Agreements”.

Recent Developments

On February 2, 2009, Brookfield converted the 4,507,030 Class B Interests it held indirectly in KFM LLC into 4,507,030 Units. These Units are held by Brascan US Holdings Inc., a wholly owned subsidiary of Brookfield. Subsequent to this conversion, the Fund has 16,571,453 Units issued and outstanding, of which 7,513,262 or 45.3% are held by Brookfield and its affiliates.

DESCRIPTION OF THE BUSINESS

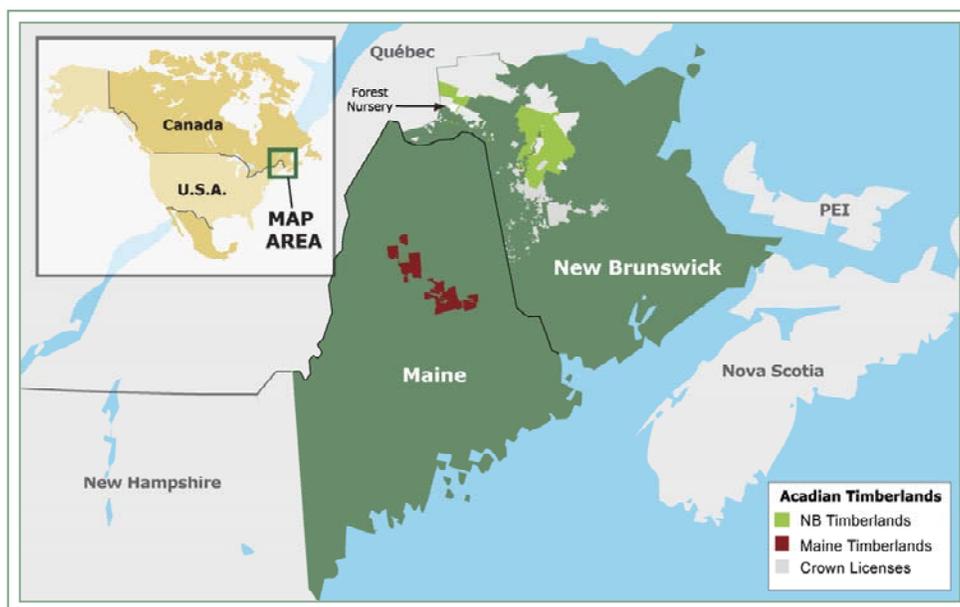
Overview of Acadian’s Business

Acadian is a leading supplier of primary forest products to the forest products industry in Eastern Canada and the Northeastern U.S. Acadian owns and manages the NB Timberlands and the Maine Timberlands and provides services in respect of the Crown Lands. These services are provided pursuant to the Crown Lands Services Agreement. Acadian also owns and operates the Forest Nursery.

Acadian engages in forest management, harvesting, marketing and sales in order to realize the maximum value from its timber and to provide fibre for regional consumers including lumber mills, pulp and paper mills and other buyers of primary forest products. Access to long-term, sustainable, high quality timber resources is an important competitive factor for Acadian’s customers. Acadian strives to: (1) harvest timber in a cost effective manner consistent with sound environmental and sustainable forestry practices; (2) sell timber (including sawlogs, pulpwood and biomass products) to targeted regional customers; (3) optimize the product mix with effective marketing and merchandising; (4) find new markets for its products; and (5) examine opportunities for HBU (higher and better use) development.

Sawlogs and pulpwood from the Acadian Timberlands are sold primarily to customers in Maine and New Brunswick. Substantially all of the annual harvest of softwood from the NB Timberlands is committed to Fraser Papers. See “Principal Agreements — Fibre Supply Agreement”. In addition, substantially all of the annual harvest of spruce/fir pulpwood from the Maine Timberlands is committed to Katahdin Paper Company, LLC (“KPC LLC”), an entity controlled by Brookfield and managed by Fraser Papers. See “Principal Agreements — KPC LLC Fibre Supply Agreement”.

The map below outlines the location of the Acadian Timberlands.



Timberland Assets

The operations of the Acadian Timberlands are conducted mainly in New Brunswick and Maine. The land base is operated by management teams headquartered in Edmundston, New Brunswick and Millinocket, Maine. Total merchantable inventory amounts to 27.6 million m³ with an annual sustainable harvest volume of 928,000 m³.

	<u>NB Timberlands</u>	<u>Maine Timberlands</u>	<u>Combined</u>
Land Area.....	765,000 acres	311,000 acres ⁽⁴⁾	1,076,000 acres
Productive Forested Area ⁽¹⁾	92%	92%	92%
Merchantable Forest Inventory ⁽²⁾	17.2 million m ³	10.4 million m ³	27.6 million m ³
Species Mix of Merchantable Forest Inventory	51% softwood	70% softwood	58% softwood
	49% hardwood	30% hardwood	42% hardwood
Long Run Sustainable Yield (LRSY).....	651,000 m ³ /year	277,000 m ³ /year	928,000 m ³ /year
Silviculture Treatment Area ⁽³⁾	216,621 acres	49,000 acres	265,621 acres
Silviculture Treatment Area (as a percentage of productive forested area).....	31%	17%	27%

Notes:

- (1) Productive Forested Area means land excluding roads, wetlands, water and other non-forested areas.
- (2) Merchantable Forest Inventory includes all trees with a diameter greater than 10 cm at a height of 1.4 m from the ground. Management estimates that this represents all trees above approximately 30 years of age.
- (3) Number of acres treated between 1978 and 2008. See “Historical Silviculture Investment”.
- (4) Includes timber owned under perpetual timber deeds covering approximately 9,000 acres, which are held by affiliates of Brookfield.

Benefits of Freehold Timberlands

Revenues from the Acadian Timberlands are generated primarily from owning and managing approximately 1.1 million acres of freehold timberlands and from providing services relating to approximately 1.3 million acres of Crown Lands. Freehold timberlands provide superior market access, higher operating flexibility and stronger cash flows than Crown Lands due to the following factors:

Harvest Flexibility: Although managers of Crown lands are entitled to a certain amount of volume flexibility on an annual basis, freehold timberlands benefit from considerably greater flexibility with regard to volumes harvested and selection of harvest areas, allowing Acadian to harvest in response to market opportunities and customer demand.

Export Markets: Acadian has the ability to export fibre from its freehold timberlands, enabling it to access markets in the U.S. and Canadian provinces outside of New Brunswick. Fibre from Crown lands is not generally exported from the province in which it is harvested due to export restrictions imposed upon such Crown lands.

Ownership of Timber: Acadian captures the full economic benefit from freehold timberlands by its entitlement to the market selling price of the product as compared to only a service fee in respect of Crown lands operations. In addition, freehold timberlands enable their owner to take advantage of pricing increases that impact favourably on financial returns.

Lower Administrative Costs: Freehold timberlands are subject to fewer regulations than Crown lands, and, accordingly, are not subject to the same administrative burden imposed by provincial legislation on Crown lands. Therefore, administrative costs can be better controlled and maintained at lower levels.

Conservation on Crown lands: The land base on Crown lands available for harvesting has been decreasing over time as the government increases the area of land that is protected for conservation purposes. According to the New Brunswick Forest Products Association, the percentage of constrained forestlands on Crown lands has increased from approximately 18% in 1992 to approximately 32% in 2002, thereby reducing fibre supply in New Brunswick and increasing the attractiveness of freehold lands. Moreover, the annual allowable harvest for softwood species on Crown lands in New Brunswick has been reduced by 14% since 1982 (*source: New Brunswick Forest Products Association*) while the Province of Quebec reduced its annual allowable harvest level by 20% in 2005 (*source: Ressources naturelles et Faune, Quebec, Mars 2005*). As a result, fibre supply in the markets served by Acadian is gradually contracting, increasing the attractiveness of freehold timberlands.

NB Timberlands

The NB Timberlands were owned and managed by Fraser Papers since the 1940's when a predecessor company acquired the timberlands from the New Brunswick Railway Company in order to provide a steady and secure flow of fibre to its lumber mills and pulp mills. The NB Timberlands are freehold lands comprising approximately 765,000 acres in three large contiguous blocks of land in the Madawaska and Victoria counties of New Brunswick.

The NB Timberlands are characterized by high soil quality, with well drained glacial till, and are attractive for both farming and timber growth.

The region’s relatively warm climate and high precipitation favours the development of tolerant hardwood forests, and large stands of sugar maple, yellow birch, red maple and beech. Coniferous stands of balsam fir and red, white and black spruce are also found in several regions. Precipitation amounts are fairly high, resulting in historically low frequency of forest fires.

Approximately 92% of the NB Timberlands is classified as productive forestland. The remaining area is comprised of roads, wetlands and water. Access to and throughout the NB Timberlands is supported by over 5,300 km of main roads and access roads developed for forest management purposes.

The NB Timberlands have approximately 17.2 million m³ merchantable timber with relatively equal volume of softwood and hardwood, the softwood being comprised primarily of spruce and fir. Excluded from the estimate of merchantable inventory are all trees under approximately 10 cm in diameter measured at a height of 1.4 m from the ground. While these trees form an important component of the future asset base, they are generally under 30 years of age and considered non-merchantable at the time of the estimate. The long run sustainable yield (“LRSY”) represents the level of annual harvest that management estimates can be sustained over an indefinite period, assuming an established silviculture program and normal regrowth. See “Forest Management — Long Run Sustainable Yield — LRSY”. The NB Timberlands have a LRSY of approximately 651,000 m³ comprised of 60% softwood and 40% hardwood. Species composition differences within Acadian’s inventory and LRSY are due to differing growth rates by species group, the effects of silviculture and harvest activities.

The following table provides a summary of management’s estimates of total merchantable forest inventory and LRSY for the NB Timberlands.

Estimates of Merchantable Forest Inventory and LRSY of NB Timberlands

<u>Products</u> <u>(thousands m³)⁽¹⁾⁽²⁾</u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlogs	7,900	2,000	9,900
Pulpwood	<u>1,200</u>	<u>6,100</u>	<u>7,300</u>
Total	9,100	8,100	17,200
LRSY(3) m ³	390,000	261,000	651,000

Notes:

- (1) Management’s current estimates of inventory are based on a FRC Forest Valuation Inventory Report dated as of November 2004, adjusted for growth and harvest through 2008.
- (2) Merchantable Forest Inventory includes all trees with a diameter greater than 10 cm measured at a height of 1.4 m from the ground. Management estimates that this represents all trees above approximately 30 years of age.
- (3) Long run sustainable yield reflects management’s estimates of the volume of timber that can be harvested for an indefinite period of time based on Acadian’s 2006-2010 forest management plan for the NB Timberlands.

Approximately 43% of the NB Timberlands productive forest is in a regenerating, immature condition that will contribute significantly to future harvest activity. The young forest area includes more than 125,000 acres of softwood plantations and more than 40,000 acres of stands that have been pre-commercially thinned (a silviculture activity) between 1978 and 2004. These young stands are being managed to provide for future harvest and will begin

contributing to the harvest in 15 to 20 years. Intermediate through over-mature development classes (older than approximately 30 years) contain merchantable inventory. Those in the over-mature class are where harvesting operations are concentrated in the near term.

Maine Timberlands

The Maine Timberlands were formerly owned by Great Northern Paper Company and have been managed for timber production for over 100 years. Brookfield US indirectly acquired these lands in April 2003. The Maine Timberlands consist of approximately 311,000 acres located in north-central Maine, in northern Penobscot and Piscataquis counties. Approximately 92% of the total acreage owned is considered productive.

Access to and throughout the Maine Timberlands is supported by approximately 1,200 km of both main roads and access roads developed for forest management purposes.

The Maine Timberlands have a merchantable inventory of approximately 10.4 million m³, of which approximately 70% is softwood. Spruce makes up approximately 30% of the total inventory. Hemlock, cedar, red maple and white pine are other significant components of the inventory. Excluded from the estimate of merchantable inventory are all trees under approximately 10 cm in diameter at 1.4 m in height. These trees form an important component of the future asset base, but are considered non-merchantable today. The LRSY of approximately 277,000 m³ is comprised of 78% softwood and 22% hardwood. Species composition differences in inventory and LRSY are due to differing growth rates by species group, the effects of silviculture and harvest activities.

The following table provides a summary of management’s estimates of total merchantable forest inventory and LRSY for the Maine Timberlands.

Estimates of Merchantable Forest Inventory and LRSY of Maine Timberlands

<u>Products</u> <u>(thousands m³)(1)(2)</u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlog.....	4,100	500	4,600
Pulpwood	<u>3,300</u>	<u>2,500</u>	<u>5,800</u>
Total	7,400	3,000	10,400
LRSY(3) m ³	217,000	60,000	277,000

Notes:

- (1) Management’s current estimates of inventory is based on a James W. Sewall Company March 2001 Report.
- (2) Merchantable Forest Inventory includes all trees with a diameter greater than 10 cm at a height of 1.4 m from the ground. Management estimates that this represents all trees above approximately 30 years of age.
- (3) Long run sustainable yield reflects management’s estimates of the volume of timber that can be harvested for an indefinite period of time based on Acadian’s 2003-2013 forest management plan for the Maine Timberlands.

Species composition in the regenerating class amounts to 35% of the productive forest area on the Maine Timberlands. Intermediate through over-mature development classes (older than approximately 30 years) contain merchantable inventory. Timberlands in the over-mature class are where harvesting operations are concentrated in the near term.

Acadian's Business Strengths

Management believes that the following business strengths will enable Acadian to maintain the stability of its financial performance and build upon its position as a leading supplier of primary forest products in its markets:

Attractive Asset Class

In contrast to depletable natural resources, management believes that timber resources can be managed on a sustainable basis to yield a predictable and stable volume of timber over an indefinite period of time. Due to the natural biological growth of timber stands, value can be accumulated and stored in the form of unharvested timber over time. Timberlands provide fibre for diverse solid and manufactured wood applications, the demand for which is naturally linked to population and economic growth. These characteristics of timberlands provide for stable, long-term cash flows and value appreciation over time.

Diversified End-Use Markets

A critical success factor for a timber business is to have robust markets for all species and products present on its land base. Acadian and its predecessors have actively developed markets for all of its products over the past 10 years in order to maximize utilization of its resource economically and Acadian continues to seek new markets for its products. Acadian has economic access to markets for all of its products, thereby enhancing cash flow stability by marketing and selling all wood fibre from the timberlands.

Large Scale of Operations

Acadian owns approximately 1.1 million acres of freehold timberlands and manages approximately 1.3 million acres of land that are Crown Timber Licenses of Fraser Papers services are provided pursuant to the Crown Lands Services Agreement. Large scale operations provide Acadian with the benefit of offering a reliable supply of roundwood to several large regional industrial consumers. Acadian has developed a reputation as a reliable, high quality supplier of large volumes of sawlogs and pulpwood and as a high quality supplier of smaller volumes of niche products. Acadian's large timberland scale allows it to spread this cost of its in-house expertise and management activities over a large merchantable inventory. Large scale operations also provide Acadian with a larger customer base and a broad range of regional market intelligence, which management believes increases opportunity to maximize the value of harvested roundwood.

Variable Cost Structure and Minimal Ongoing Capital Requirements

Acadian's costs are predominantly variable as the majority of expenses associated with harvesting operations are a function of harvest levels. This variable cost structure provides flexibility and direct operating advantages. Because variable harvesting costs are directly tied to the type of timber harvested and the logging methods used, Acadian implements a margin-focused operating philosophy guided by selling prices and harvest and transportation costs.

Acadian also has low expected capital expenditures as main road and bridge construction is minimal and predictable given the extensive existing main road network and current condition of bridges. Harvesting equipment investments are minimal as harvesting equipment is owned by owner-operator employees and contractors. While expenditures on silviculture are an investment which maintain and enhance the productivity of the timberlands, management believes that significant flexibility exists in the timing, amount and nature of silviculture investments and silviculture investment can be materially increased or reduced for a number of years without materially impacting the LRSY.

Historical Silviculture Investment

Acadian is expected to continue to benefit in the future from historical silviculture investments. Historical silviculture programs on the Acadian Timberlands were targeted towards softwood availability and included planting, pre-commercial thinning and softwood release treatments. The goal of silviculture investments is to encourage the rapid growth of high value species and increase both the yield and value of timber growing on Acadian's more productive land areas. Approximately 266,000 acres of land have been treated between 1978 and 2008, which represents 27% of the total productive forested area.

Experienced Management Team

Acadian has an accomplished management team with substantial experience in the timber industry and strong capability to carry out timber planning, harvesting, marketing, sales and distribution activities. Acadian's top five operational executives each have at least 20 years experience on their respective portions of the Acadian Timberlands and collectively have over 110 years of experience in timberland management and operations in Eastern Canada and the Northeastern U.S. region.

In addition, Acadian's operating team, together with the Manager, have a proven track record of completing strategic acquisitions of timberlands assets. Individuals retained by the Manager in delivering its services to Acadian have successfully completed several acquisitions, including the acquisition of the Maine Timberlands in April 2003, the acquisition of 635,000 acres of timberlands in coastal British Columbia in May 2005, and an additional 655,000 acres in the Pacific Northwest since April 2007.

Strong Sponsorship

Brookfield holds a significant indirect investment in Acadian thereby aligning its objectives to those of the Fund. Fraser Paper, a subsidiary of Brookfield of which it holds a 70.5% interest, has a significant business relationship with Acadian. Acadian will benefit from the asset management services provided by the Manager, a wholly-owned subsidiary of Brookfield, and from Fraser Papers' ongoing relationship as the manager and licensee under the Crown Lands Services Agreement. In addition, Fraser Papers will remain a significant purchaser of roundwood under the Fibre Supply Agreements. See "Principal Agreements". Brookfield is a global asset management company that owns or manages approximately US\$80 billion of assets, focused primarily on property, power and other infrastructure assets. Brookfield has over 30 years experience investing in the timber and forest products industry and manages approximately 2.5 million acres of freehold timberlands in North America and Brazil. Fraser Papers is one of North America's leading integrated producers of specialty paper products with operations in New Brunswick, Maine, New Hampshire and Quebec. Pursuant to the Exclusivity Agreement, Acadian will act as the exclusive vehicle for Brookfield's timberland acquisitions in Eastern Canada and the Northeastern U.S. See "Principal Agreements — Exclusivity Agreement".

Acadian's Business Strategy

Acadian's business strategies are designed to maximize profitability and maintain stability of cash flow and to increase distributable cash per Unit, with an emphasis on enhancing the value of its timberland asset base, and are outlined below:

Maintain a low and flexible cost structure: Acadian has moved from a fully internalized workforce to a largely owner-operator or contractor-based organization for all harvesting, transportation and timberland management. This has resulted in a flexible cost structure enabling Acadian to vary its harvesting levels to adapt to market conditions.

Maintain distribution channels for all products: Acadian will continue to focus on adding value to its timberland inventory by maintaining and enhancing its customer relationships and sales channels. Acadian has over 110 customer relationships, and leverages these relationships in order to maximize the value of all fibre derived from its timberlands.

Sustainable harvesting practices: Management believes that, through a combination of independent third party verification and sophisticated timberland yield management analysis, Acadian harvests at levels consistent with its sustainable forest management plans across its timberland asset base. The NB Timberlands are certified under the Sustainable Forestry Initiative, which includes measures of assurance for sustainable harvesting compliance. The NB Timberlands are also ISO 14001 certified for environmental management systems, which include means of verifying compliance with environmental standards. Management intends to continue to maintain these practices.

Targeted silviculture activities: Acadian employs various silviculture treatments, which management believes increase the long-term value of its timberlands. These include planting, pre-commercial thinning and softwood release treatments.

Strategic acquisitions: Acadian's acquisitions strategy is initially focused on Eastern Canada and the Northeastern U.S. markets. In addition, pursuant to the Exclusivity Agreement, Acadian will act as the exclusive vehicle for Brookfield's timberland acquisitions in those markets.

Realize the value of selected properties through sale or exchange: Within the forest management sector, opportunities arise to sell or exchange tracts of land on a beneficial basis according to the species mix, location and other attributes of those lands and the intended uses for such properties. Due to its significant freehold land ownership, management believes that Acadian will realize increased value and improved profitability through such sales or exchanges.

Acadian's Operations

Customers & Marketing

Acadian has a large client base servicing over 110 customers in addition to Fraser Papers. Acadian has purposely developed its customer base to market all grades and species of fibre economically from its timberlands. Acadian's customers are generally located within 250 kilometers from sites where the timber is harvested, but the radius may vary over time, driven by fibre demand, pricing and freight costs.

Customer relationships are the responsibility of senior management, who maintain close contact to market activity. Acadian's broad customer base and experienced management team provide strong support for full utilization of Acadian's fibre yield into the foreseeable future.

Acadian's customer base is comprised largely of mills to which Acadian and its predecessors have sold wood for many years. Long-term relationships and reliability of committed deliveries help to qualify Acadian as a preferred supplier. Preferred suppliers are generally less impacted by abrupt price reductions and delivery curtailments, thereby leading to greater and more stable distributable cash over time.

Lumber and pulp and paper mills, owned or managed by Fraser Papers, represented 29% of total sales from the Acadian Timberlands for the year ended December 31, 2008. Of the remaining 71% of Acadian Timberlands' total sales, the single largest customer represented 11% of total sales and the top five customers combined represented 33% of total sales. These sales are generally based on six-month to one-year fixed price supply agreements based on fair values negotiated at the time that the contracts are entered into and consistent with industry practices.

Fraser Papers Relationship

Substantially all of Acadian Timberlands' sales of spruce and fir sawlogs and pulpwood (all of which are softwood species) are directed towards Fraser Papers' owned or managed lumber and pulp and paper mills ("Related Mills"). Approximately 29% of Acadian's total sales for the year ended December 31, 2008 were derived from sales to Fraser Papers. Another 3% of those sales were derived from sales to Brookfield.

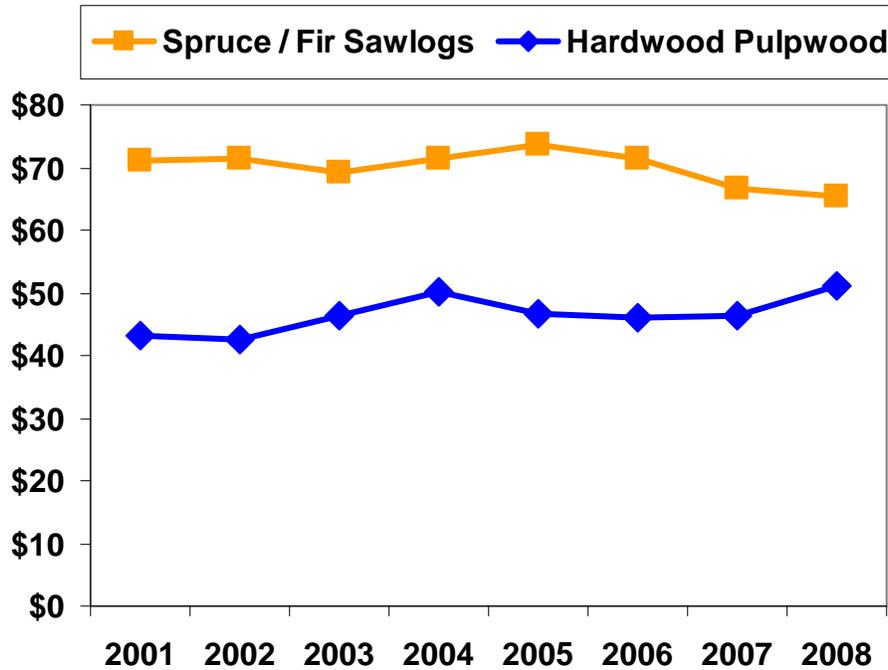
Pricing

Pricing is determined through direct negotiation with each customer and is, consequently, dependent on species, size, quality, location and other factors. Terms are often flexible and usually remain in place for between six months to one year. There is no reliable formal or independent pricing index for roundwood sold from freehold timberlands in New Brunswick and Maine.

The chart below provides a six-year history of pricing realized for spruce fir sawlogs and hardwood pulpwood from the NB Timberlands and the Maine Timberlands. Pricing of spruce fir sawlogs has been very stable in recent years despite significant changes in the CAN\$/US\$ exchange rate and pricing for finished wood products commodities. This has allowed Acadian to maintain a very stable financial performance.

In periods of strong demand, management is able to pass most cost increases for inputs such as fuel along to its customers. In periods of weaker demand, cost increases may be wholly or partially absorbed by Acadian.

Historical Pricing — NB Timberlands and Maine Timberlands⁽¹⁾⁽²⁾



Note:

⁽¹⁾ Pricing for Maine has been converted using a conversion rate based on the average of the exchange rates on the last business day of each quarter during the applicable year.

⁽²⁾ Pricing for Maine in 2003 reflects the period from April 29, 2003 to December 31, 2003.

Crown Lands Services

New Brunswick’s Crown lands are subject to government oversight. The 1982 *Crown Lands and Forests Act* (“CLFA”) authorized the Minister of Natural Resources to enter into forest management agreements with timber companies that owned and operated wood processing facilities in the province. At that time, Crown lands were divided into 10 license areas. The companies that were assigned management responsibility for these areas became Crown licensees, of which Fraser Papers is one. Smaller companies (mostly lumber mills) obtaining wood supply from these same areas became known as sub-licensees. Crown licenses and sub-licensees are granted to mill owners with the obligation that the fibre harvested from the subject timberlands be used at the associated mills. Export of timber harvested from the Crown licenses is therefore not permitted without Government approval.

The Crown licenses are administered with 25-year evergreen forest management agreements between the Government of New Brunswick and the Crown licensees. The Crown licenses are managed based on an 80-year time horizon, with management plans renewed every five years for the following 25-year period. The forest management agreements are approved by the Government and the plans must be adhered to in order to obtain operating approval every year and license extension every five years. Royalties are collected from the Crown licensees based on established government rates, which are set every year. Revised five-year forest management plans in New Brunswick came into effect April 1, 2007 and will expire in March, 2012. Management expects that the current allowable annual cut (“AAC”) on Crown lands would be maintained for the ensuing 2007-2012 period, consistent with Government intentions as stated in a June 2005 Report from the New Brunswick Ministry of National Resources (*source: The New Brunswick Public Forest — Our Shared Future, Natural Resources, June 2005*). However, spruce fir and hardwood AACs dropped by approximately 1% and 2% across the Province. According to the New Brunswick Forest Products Association, the percentage of constrained forestlands on Crown lands has increased from approximately 18% in 1992 to approximately 30% in 2007, which accounts for the historical decrease in AAC over time.

In 2007, the government consolidated licenses assigned to the same business entity resulting in the 10 licenses being consolidated into six licenses covering the same area. Fraser Papers is the Crown Licensee of New Brunswick Crown Timber Licenses #9 (this is the combination of former licenses #9 and #10) (the “Crown License”), which is located in the northern region of New Brunswick in the counties of Madawaska, Restigouche, Victoria, Carleton, York and Northumberland.

Crown Timber Licenses

<u>Crown License</u>	<u>Total Area</u> (Acres)	<u>Allowable Annual Cut</u> <u>2007-2012</u> (m ³)	<u>% of AAC</u> <u>for Fraser</u> <u>Papers’ Use</u>	<u>% of AAC</u> <u>Sub-licensed</u>
#9	1,313,000	1,150,181	17%	83%

Acadian provides various services related to approximately 1.3 million acres of Crown Lands subject to the Crown Timber Licenses in the Province of New Brunswick at the direction of Fraser Papers and in a manner consistent with the way that the Crown Timber Licenses have been managed by Fraser Papers for over 25 years. Fraser Papers has entered into the Crown Lands Services Agreement with Acadian for a term consistent with the term of the Crown Timber Licenses held by Fraser Papers, whereby Acadian will provide various administrative and operating services to assist Fraser Papers in managing the Crown Timber Licenses. Under the terms of this agreement, Fraser Papers is responsible for collecting and paying to the Government a royalty fee (calculated in \$/m³ that varies based on species and product type). A levy fee (calculated in \$/m³ for silviculture spending that differs for softwood and hardwood) is administered by Acadian for the volume harvested on the License. Acadian will assist Fraser Papers by collecting such amounts from sub-licensees. See “Principal Agreements — Crown Lands Services Agreement”.

Crown License Activities

Forest management planning activities are the responsibility of the Crown licensees. The Operating LP is engaged by Fraser Papers under the Crown Lands Services Agreement to prepare a Forest Management Plan for approval by Fraser Papers and the Government of New Brunswick, which will then approve the AAC in respect of such Crown Lands. In addition, the Operating LP will perform silviculture activities for Fraser Papers over the licensed area and the construction and maintenance of all main roads on the Crown Lands; however, sub-licensees on these lands build and maintain their own logging access roads.

Under the Crown Lands Services Agreement, the Operating LP charges Fraser Papers for its cost of production (including harvest cost, transportation, access road construction and maintenance) and collects on behalf of Fraser Papers a royalty fee (stumpage fee in $\$/\text{m}^3$ paid to the Government which varies based on species and product type). A levy fee (fee in $\$/\text{m}^3$ for silviculture spending which differs for softwood and hardwood) is administered by Acadian for the volume harvested on the License. The Operating LP also charges Fraser Papers and sub-licensees a service fee (fee calculated in $\$/\text{m}^3$) as consideration for its services under the Crown Lands Services Agreement. The service fee charged by the Operating LP will be audited by an independent auditor every five years. The service fee will be fixed for those five years with an embedded annual adjustment based on the New Brunswick Consumers Price Index.

The Operating LP will provide harvesting services for approximately 17% of the Crown AAC for Fraser Papers in consideration for cost recovery and service fees.

Approximately 83% of the Crown harvest is assigned by the Government to third parties (“Sub-licensees”) who are entitled to cut and harvest timber for their own use on payment of royalty, levy and service fees.

While freehold timberlands generate higher operating profits per harvested m^3 and provide greater operational flexibility, Crown Lands provide the Operating LP with the ability to leverage the Operating LP’s fixed cost platform across a larger operation, thereby yielding economies of scale. Such fixed costs, which are material to forest harvesting operations, include the operation of geographic information systems and personnel involved in forest management strategies.

Forest Nursery

Acadian owns a newly modernized tree nursery in Second Falls, New Brunswick, which is located on the NB Timberlands. This facility, operating since 1978, was upgraded by Fraser Papers at a cost of \$1.2 million in 2003 and is now equipped with fully automated greenhouses. The nursery’s annual production capacity is approximately 10 million seedlings and its current annual production rate is approximately seven million seedlings. The nursery, as part of its research and development activities, has developed, through natural breeding processes, genetically improved stock, which produces faster growing trees and assists in maximizing future timberland value. The use of genetically improved seedlings is key for the success of silviculture operations as first and second generation seedlings can improve tree volume by 10% to 20% over unimproved seedling (*source: New Brunswick Tree Improvement Council*).

Acadian’s forest management activities require approximately two million seedlings per year to fulfill its regeneration plans that could vary from year to year. The remaining seedlings are sold to the Government of New Brunswick, small woodlot owners and other industrial users. Acadian is an active participant in the New Brunswick Tree Improvement Council where active tree improvement experiences are shared among other government and industry participants.

Harvesting Operations

Acadian employs a mix of unionized employees and contractors to harvest timber and deliver it to Acadian's customers. NB Timberlands' operations are partially unionized. In New Brunswick, unionized employees, who are owner-operators, cut approximately 70% of NB Timberlands' softwood and approximately 30% of its hardwood. Between 25 to 47 contractors throughout the year are employed in New Brunswick to harvest the remaining softwood and hardwood, as well as to execute all trucking, road construction and silviculture activities. Both owner-operators and contractors own all of the harvesting equipment directly. In Maine, Acadian's harvesting, trucking, road building and silviculture activities are performed exclusively by contractors. Acadian employs four to seven contractors in Maine.

The majority of Acadian's logging contractors have a long term working relationship on the Acadian Timberlands. Acadian's foresters have conducted annual training sessions to update the contractors on the latest changes in regulations as well as promoting the use of best practices in timber harvesting. Contractor turnover has been minimal and is usually caused by an inability to meet Acadian's performance standards.

A program of continual learning ensures the competency of new and existing employees. Hourly and management employees are trained to monitor and measure compliance with company policies. Progressive discipline or taking action to promote continuous safe performance is a key supervisory accountability.

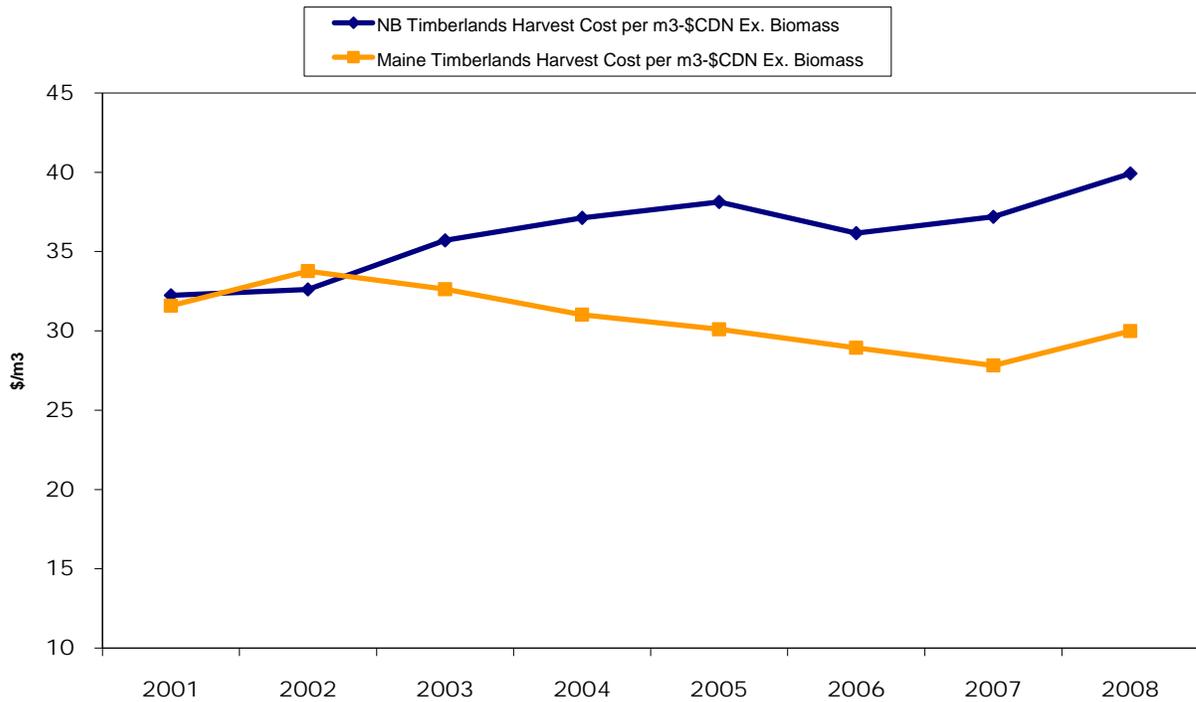
The harvesting equipment used by Acadian's contractors includes various large hydraulic-powered loaders, harvesters, skidders/forwarders and logging trucks. After a plot of land is identified for harvesting, roads are constructed in order to provide access to the site. Once road access is available, trees are harvested one at a time, piled in bunches and brought to the roadside. At the side of the road, branches are removed from the trees and the trees are loaded onto logging trucks. The branches are either taken back into the forest or are piled for transportation to biomass-fired power plants.

The roundwood is hauled to either a mill or sorting yard where the wood is weighed. Depending on the nature of the supply contract, wood is weighed either on scales operated by Acadian or by the purchaser. All logging trucks require a hauling trip ticket before hauling Acadian's wood and these trip tickets are used to reconcile all receipts inventory and payments.

Management believes that all of its harvesting crews are well-trained with a strong safety-record and have a long history of cooperation in implementing efficiency and other operating measures. Management expects to be able to maintain the appropriate resources, whether contractors or owner-operators, to harvest its timberlands in the foreseeable future.

The chart below provides a six year history of the combined harvesting and transportation costs from the NB Timberlands and the Maine Timberlands. Management has been able to work with its contractor base to improve efficiencies and to stabilize the NB Timberlands' unit costs since 2003 in spite of rising fuel costs. The Maine Timberlands costs have risen primarily in response to increased fuel costs, which contractors have not absorbed.

Historical Harvest Cost - NB and Maine



Notes:

- (1) Harvest and transportation costs for the Maine Timberlands in 2003 are for the period from April 29, 2003 to December 31, 2003.
- (2) Harvest and transportation costs for 2006 are for the eleven month period February 1, 2006 to December 31, 2006.
- (3) Excludes biomass harvesting cost.

Employees

Acadian has 143 employees as at December 31, 2008 of which 120 were active. Acadian's New Brunswick Timberlands successfully renegotiated a favourable labour agreement with Local 114 during the second quarter of 2006, following the agreement with Local 15N during the fall of 2005. Together, these two agreements provide Acadian with labour certainty through 2010. Fraser Papers, the predecessor employer, had a positive labour relations history with these unions and had no strikes or lockouts during the previous 12 years.

Seasonality

Acadian's business is seasonal. Harvesting activity is highest during the winter months with a significant decrease in activity during the spring. This seasonality is driven by road and ground conditions. During the winter months, the frozen ground provides a solid base for the harvesting and hauling equipment. During the spring, muddy and soft

ground conditions lead to reduced activity and low harvest levels. As the ground dries in the early summer, harvesting activity resumes and is consistent during the summer and fall. Working capital requirements are highest during the first quarter and lowest at the end of the second quarter. While customers accept wood deliveries year round, most customers match their buying patterns to the harvesting patterns and purchase significant wood inventories while the ground is frozen during the winter months.

Capital Expenditures

A significant portion of Acadian's annual capital expenditures is for silviculture investments relating to planting, site preparation or softwood release. See "Forest Management — Silviculture Investment". Management believes that capital investments for silviculture can be adjusted over the short to medium-term without materially impacting the LRSY of the Acadian Timberlands. Another key portion of capital expenditure is for road and bridge construction. While costs associated with access road construction and all road maintenance are expensed annually, costs relating to major bridge construction or repair and main road construction are capitalized. Management expects these investments in bridges and main roads to decrease in the future, given the extensive road network that currently provides access to the timberlands.

Foreign Exchange

All net sales and expenses of the Maine Timberlands for the year ended December 31, 2008 were denominated in U.S. dollars. Approximately 92% of the total sales for the year ended December 31, 2008 and substantially all of the expenses of the NB Timberlands are denominated in Canadian dollars. Management believes that, since 2003, the impact of the rising Canadian dollar has resulted in higher U.S. dollar-denominated net sales and earnings from the Maine Timberlands. Management believes that this increase is the result of price appreciation in U.S. dollar terms realized by U.S. land owners as a result of increased demand for roundwood in Maine, fuelled by the higher Canadian demand resulting from the appreciation of the Canadian dollar. Management believes that the price appreciation for roundwood in Maine since 2003 has provided a hedge against the impact of the rising value of the Canadian dollar, and believes that this correlation may continue in the future. Management has determined, therefore, not to hedge foreign exchange risk. Acadian may, from time to time, re-evaluate the impact of changes in foreign exchange rates and use derivative financial instruments to manage its foreign currency exposure.

Competition

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 Canada, Acadian's prime competitors are other large forestland owners, Government and small private forestland owners, while Acadian's prime competitors in the U.S. are freehold forestland owners. There are many suppliers of softwood and hardwood logs located in Eastern Canada and the Northeastern U.S., who compete in Acadian's markets, including: J.D. Irving Ltd., Prentiss & Carlisle, Seven Islands Land Company, Plum Creek Timber Company, Wagner Forest Management and J.M. Huber Corporation. Management believes that Acadian may also be subject to increased import competition from worldwide suppliers of forest products.

Health and Safety

Acadian requires of its external service contractors the same safety standards applicable to its internally-controlled operations. As such, contracts require accountability for safety by the contractor. Operations are audited, incidents are reported and Serious Accident Frequency (SAF) is reported monthly to Acadian. A documented and measured "Safety Action Plan" to support continual improvement and the annual SAF target is renewed annually, supported by individual objectives, and communicated through the Joint Health & Safety Committee framework in New Brunswick and through management in Maine.

Forest Management

Forest Management Strategy

Acadian's forest management strategy is designed to support the Acadian Timberlands' capacity to produce long-term stable cash flows from sustainable harvest volumes and to ensure that the asset base is appreciating over time by growing high value species and products.

Acadian prepares 80-year forecasts of its future timber yields, based on forest inventories and growth estimates, which are updated approximately every five years. Annual operating reviews and audits ensure that activities are consistent with long-term plans.

Forest Inventory Assessment

Management estimates its merchantable forest inventory (currently at 27.6 million m³) based upon independently and internally measured ground sample plots and forest cover type information. The NB Timberlands merchantable inventory volume was determined based on a report prepared in 2004 by Forest Resource Consultants. The inventory of the Maine Timberlands was determined based on a report prepared by James W. Sewall Company in 2001. Management believes that its merchantable forest inventory estimates continue to be consistent with current inventory levels. Forest inventories are typically updated every 10 to 12 years.

Management keeps a detailed classification of all forest stands on a computerized geographic information system ("GIS"). The GIS data is regularly updated to account for all forestry activity and significant natural events.

Long Run Sustainable Yield — LRSY

The overall management objective for the NB Timberlands and the Maine Timberlands is to ensure that the lands are managed consistent with the principles of sustainable forestry based on the Sustainable Forestry Initiative Standard (SFIS 2005-2009 Edition), that is, to meet the needs of the present without compromising the ability of future generations to meet their own needs by practicing a land stewardship ethic that integrates reforestation and the managing, growing, nurturing, and harvesting of trees for useful products with the conservation of soil, air and water quality, biological diversity, wildlife and aquatic habitat, recreation, and aesthetics. LRSY, long run sustainable yield, reflects the maximum annual volume of timber that management estimates, based on current conditions, can be harvested for an indefinite period of time. The determination of this sustainable harvest level is estimated by combining information from the forest inventory, stand growth projections and future silviculture investments, in a computer model to make 80-year harvest forecasts. The combined LRSY from the NB Timberlands and the Maine Timberlands is estimated at approximately 928,000 m³/year and is comprised of 65% softwood and 35% hardwood.

The NB Timberlands' strategy is to balance the overall forest structure through strategic harvesting and to move towards the long-term LRSY of 651,000 m³/year within 10 years. The harvest levels for softwood will continue to approximate its LRSY of 390,000 m³/year, while the hardwood harvest levels will continue to be higher than its LRSY of 261,000 m³/year until 2016. Harvesting of hardwood species on the NB Timberlands was minimal prior to the mid 1990's resulting in the domination of hardwood stands in areas that previously consisted of softwood species. Management's estimate of the LRSY for the NB Timberlands takes into account a harvesting strategy implemented in the 1990's to reduce the volumes of hardwood pulpwood in the forest and to encourage the growth of higher value hardwood sawlogs and softwood species. As a result of this strategy, in recent years, harvesting levels of hardwood pulpwood on the NB Timberlands has been significantly higher than its LRSY and management expects that the current harvest levels for hardwood pulpwood will continue to exceed the long run sustainable levels until approximately 2016, albeit at a lower rate than in recent years. Hardwood pulpwood is a relatively low-value product, among the products harvested from the NB Timberlands, and is currently harvested with a very low direct margin contribution. Management believes that the implementation of improvements in hardwood stands over the last decade and the next 10 years will create increased value in the hardwood stands on the NB Timberlands and will offset the financial impact of lower hardwood pulpwood harvest volumes in the future.

The LRSY for the NB Timberlands is indicated in the table below.

Harvest Levels and LRSY for NB Timberlands⁽¹⁾⁽²⁾

<u>Species</u>	<u>Actual Harvest (m³/year)</u>						<u>Projected Harvested Levels (m³/year)</u>			<u>LRSY (m³/year)</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽³⁾</u>	<u>2007</u>	<u>2008</u>	<u>2008-2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	
Softwood	461,000	393,000	379,300	321,200	372,500	273,800	397,000	390,000	390,000	390,000
Hardwood	<u>483,000</u>	<u>530,000</u>	<u>546,800</u>	<u>439,600</u>	<u>443,400</u>	<u>389,600</u>	<u>390,000</u>	<u>330,000</u>	<u>261,000</u>	<u>261,000</u>
Totals	<u>944,000</u>	<u>923,000</u>	<u>926,100</u>	<u>760,800</u>	<u>815,900</u>	<u>663,400</u>	<u>787,000</u>	<u>720,000</u>	<u>651,000</u>	<u>651,000</u>

Notes:

- (1) Projected harvest levels recognize current planned silviculture.
- (2) All harvest figures exclude biomass.
- (3) For the eleven months ended December 31

The Maine Timberlands strategy is to continue with harvest levels consistent with future estimated LRSY. Planned harvest levels will continue to bring greater balance to the age-class structure over time and are consistent with long-term growth rates in the region. LRSY will be updated as new data on actual growth and mortality becomes available through updated inventory information and through research on growth responses to management inputs.

The LRSY for the Maine Timberlands are indicated in the table below.

Harvest Levels and LRSY for Maine Timberlands⁽¹⁾

<u>Species Group</u>	<u>Actual Harvest (m3/year)</u>						<u>Projected Harvest to 2020</u>	<u>LRSY (m3/year)</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽²⁾</u>	<u>2007</u>	<u>2008</u>		
Softwood	175,000	227,000	227,100	204,600	243,900	234,400	217,000	217,000
Hardwood	<u>82,000</u>	<u>54,000</u>	<u>52,800</u>	<u>70,900</u>	<u>56,900</u>	<u>62,100</u>	<u>65,000</u>	<u>60,000</u>
Total	<u>257,000</u>	<u>281,000</u>	<u>279,900</u>	<u>275,500</u>	<u>300,800</u>	<u>296,500</u>	<u>282,000</u>	<u>277,000</u>

Notes:

- (1) All harvest figures exclude biomass.
- (2) For the eleven months ended December 31

Silviculture Investment

Silviculture investments offer many benefits to Acadian such as improving the yields of future harvests, shortening rotations, improving productivity, increasing value, balancing age class distribution, and allowing for greater flexibility in future forest management options. Acadian inherited large silviculture investments made by its predecessors during the past 25 years.

Silviculture expenditures have included planting spruce species, thinning of young overstocked softwood stands, and softwood release.

Area of Silviculture Treatments between 1978 and 2008

<u>Silviculture Activity</u>	<u>NB Timberlands</u>	<u>Maine Timberlands</u>
	<u>(In acres, except percentages)</u>	
Planting	130,000	15,000
Pre-commercial thinning	40,500	4,500
Softwood release	<u>46,000</u>	<u>30,000</u>
Total silviculture treatment area.....	<u>216,500</u>	<u>49,500</u>
Total silviculture treatment area as a percentage of productive forested area	31%	17%

Forest Certification

Acadian’s forest planning and operations for the NB Timberlands and Fraser Papers’ management of the Crown Timber Licenses have been third-party certified since 2000 by the Quality Management Institute under the ISO 14001 standard for environmental management systems and the American Forest and Papers Association Sustainable Forestry Initiative (SFISM). Third party sustainable forestry surveillance audits are conducted annually and full re-registration audits occur every three years. Third party certifications provide the general public, Acadian’s customers and environmental groups with knowledge that the assets are well managed in accordance with industry best practice. The SFI program is a comprehensive system of principles, objectives and performance measures developed by foresters, conservationists and scientists, designed to assure the sustainability of forests for current and future generations. This standard includes requirements for the protection of wildlife, plants, soil and water quality.

Forest Protection

The Acadian Timberlands are protected from insects, disease and fire through co-operative efforts amongst other large landowners and Provincial and State agencies. In New Brunswick, the government is the lead agency for forest protection efforts. The cooperative efforts have led to the formation of Forest Protection Limited. Forest Protection Limited provides surveillance and direct action in the event of a fire or infestation, and is funded by the Government of New Brunswick and Crown licensees. The New Brunswick Timberlands are a member of Forest Protection Limited. In Maine, the Maine Forest Service acts in a similar manner, providing expertise and resources in the field of forest resource protection, suppression and investigation of fires that threaten Maine’s forest. Fire surveillance and suppression activities in Maine are funded by large landowners through a special tax.

Regulatory Environment

New Brunswick Freehold and Crown Lands

Regulations in New Brunswick are governed primarily by the *Crown Lands and Forests Act* and the *Clean Environment Act*. Additional regulations are prescribed by the Province of New Brunswick to ensure compliance with a variety of health and safety standards. New Brunswick has benefited from a relatively stable regulatory regime over time.

Management believes that Acadian has been in compliance, in all material respects, with all laws and regulations governing its operations in New Brunswick. Where the *Crown Lands and Forest Act* relates to the specifics of

Crown lands' obligations, freehold timberlands fall under the auspices of the *Clean Environment Act*. Acadian manages its freehold timberlands consistent with the principles of sustainable forest and has received 3rd party forest certification to demonstrate the commitment to sustainable forestry.

Maine Freehold

Regulations in Maine are administered primarily by the Maine Land Use Regulation Commission, Maine Forest Service and the Maine Department of Environmental Protection. Maine has had a less stable regulatory system than New Brunswick, due to the impact of citizen-led referendum initiatives, the reaction to them and a population base that is increasingly distanced from active timber harvesting and land management. The operations of the Maine Timberlands are subject to federal, state and local environmental laws and regulations relating to the protection of the environment, including regulations relating to air, water, solid waste, hazardous substances and threatened or endangered species. Management believes that Acadian has been in compliance, in all material respects, with all laws and regulations governing its operations in Maine.

Environmental Matters

Third party environmental audits are performed on the NB Timberlands every year to ensure compliance with all company policies and procedures, forest certification requirements and government regulations. Environmental inspection systems are used on all Acadian Timberlands to ensure compliance with regulations and best operating practices. Acadian's environmental management system is designed around a continual improvement model that focuses on prevention of problems. In 2002, a conservation easement on the Maine Timberlands was sold to The Nature Conservancy covering approximately 200,000 acres. The State of Maine, which now holds the easement, monitors Acadian's activities in the easement area for compliance with easement objectives. While this conservation easement restricts the future development potential of the land for industrial or residential purposes, it does not materially impact the use of the timberlands for economically viable commercial timber harvesting.

Public Relations/Aboriginal Relations

Acadian is committed to consulting with Aboriginal Peoples, environmental associations, local residents and other stakeholders in identifying their objectives and their values relating to activities on its timberlands. Consultations are performed in a structured manner through regional Forest Advisory Committees (FAC) in New Brunswick. The committees help improve government relations and act as a pulse of the community regarding environmental issues related to forest lands. The FACs are used as a resource when developing forest management objectives and reviewing environmental concerns. Acadian in New Brunswick has worked cooperatively with local First Nations communities since 1997. While relationships with many forest companies have been unsettled, Acadian foresters have worked hard to ensure that interactions with First Nations communities are conducted respectfully.

Land claims issues with Aboriginal peoples in Maine are regarded as having been largely settled in the early 1980's. The State of Maine, the U.S. federal government and the Maine Indian tribes negotiated the *Maine Indian Claims Settlement Act of 1980*, which is the legal framework that now governs the relationship between the Maine tribes, the State, and the federal government. The Settlement Act was ratified by the tribes and codified into State and federal law. Tribal claims to land and damages were resolved with all prior transfers of land to and from the tribes ratified and Aboriginal land claims extinguished.

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.

Risks Related to the Business and Industry

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 (37% for the year ended December 31, 2007). 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 have not been available on commercially acceptable terms or, in some cases, have been unavailable.

Security of Land Title

At the time of Acadian's formation, approximately 95% of the NB Timberlands were registered under the new land titles system in New Brunswick while approximately 5% remained under the old registry regime. Title to this remaining 5% of the NB Timberlands had not been 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. Acadian has been working to complete the land titles conversion and currently has 98% of the land now registered.

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.

Risks Related to the Structure of the Fund

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.

Dependence on the Partnership

The Fund is an unincorporated open-ended, limited purpose trust that is entirely dependent on the operations and assets of the Partnership. Cash distributions to Unitholders are dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which, in turn, is dependent on the LP making cash distributions. The LP's ability to make cash distributions is dependent on the Operating LP and KFM LLC making cash distributions. The ability of the Fund and its subsidiaries to make cash distributions or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the Credit Facilities.

Dependence on the Manager and Potential Conflicts of Interest

Acadian is dependent on the Manager in respect of certain strategic management functions relating to the ongoing operations of the Acadian Timberlands. The Manager, its affiliates, employees or agents and other funds and vehicles managed by the Manager 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.

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.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Partnership's businesses or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, is entirely dependent on the operations and assets of the Partnership, and is subject to various factors including each of its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margin and its capital expenditure requirements. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Nature of Units

The Units share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the businesses of the Partnership and should not be viewed by investors as direct securities of the Partnership. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights of dissent. The Units represent a fractional interest in the Fund. The Fund's primary assets are Trust Units and Trust Notes. The price per Unit is mainly a function of anticipated distributable income.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Market Price of Units

Publicly traded investment trusts such as the Fund do not necessarily trade at prices determined solely by reference to the underlying value of their investments. Increases in market rates of interest may lead purchasers to demand a higher yield on the Units, which may adversely affect their price. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and other factors beyond the Fund's control. The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be material.

Distribution of Securities on Redemption or Termination of the Fund

Upon termination of the Fund, the Trustees may distribute the Trust Notes and Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. Upon redemption of Units, the Trustees may distribute the Trust Notes directly to Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Notes and the Trust Units. In addition, Trust Notes and the Trust Units are not freely tradable or listed on any stock exchange. See "Description of the Fund — Term of the Fund" and "Description of the Fund — Redemption at the Option of Unitholders". Securities so distributed may not be qualified investments for trusts governed by Plans, depending on the circumstances at the time.

Dilution of Existing Unitholders

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues.

The LP is permitted to issue additional LP Units (including Class B LP Units) for any consideration and on any terms and conditions. Any additional Class B LP Units that are issued would also be exchangeable for Units.

Leverage and Restrictive Covenants in Agreements Relating to Indebtedness

The ability of the Trust and its subsidiaries to make distributions, pay dividends or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facilities). The degree to which the Partnership is leveraged could have important consequences to the Unitholders including: the Partnership's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of the Partnership's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interests, which exposes the Partnership to the risk of increased interest rates; and the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of distributable cash to interest rate variations.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of the LP's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the LP and its subsidiaries to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain a number of financial covenants that require the LP to meet certain financial ratios and financial condition tests. A failure by the LP to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by LP and permit accelerated repayment of the relevant indebtedness. If the repayment of indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that the assets of the LP would be sufficient to repay in full that indebtedness. In addition, the term a revolving portions of the Credit Facilities will mature January 29, 2010, and accordingly, the LP may be required to refinance such indebtedness or seek alternative financing arrangements. There can be no assurance that the Credit Facilities will be able to be refinanced or refinanced on acceptable terms or that future borrowings or equity financings will be available to the LP, or available on acceptable terms, in an amount sufficient to fund the LP's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of the Partnership and the ability of the Fund to make distributions on Units.

In addition, KFM LLC has a significant amount of debt. The KFM Credit Facility contains numerous restrictive covenants that limit the discretion of KFM LLC's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of KFM LLC to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the KFM Credit Facility contains a number of financial covenants that require KFM LLC to meet certain financial ratios and financial condition tests. A failure by KFM LLC to comply with the obligations in the KFM Credit Facility could result in a default which, if not cured or waived, could result in a termination of distributions KFM LLC and permit acceleration of the relevant indebtedness. If the indebtedness under the KFM Credit Facility were to be accelerated, there can be no assurance that the assets of KFM LLC would be sufficient to repay in full that indebtedness. In addition, the KFM LLC Credit Facility will mature in February, 2011, and accordingly, KFM LLC may be required to refinance such indebtedness or seek alternative financing arrangements. There can be no assurance that the KFM Credit Facility will be able to be refinanced or refinanced on acceptable terms or that future borrowings or equity financings will be available to KFM LLC, or available on acceptable terms, in an amount sufficient to fund KFM LLC's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of the Partnership and the ability of the Fund to make distributions on Units. See "Debt Financing".

Income Tax Matters

On June 22, 2007 new tax rules regarding the income tax treatment of most publicly traded trusts and partnerships (other than certain real estate investment trusts) and the distributions and allocations, as the case may be, from these entities to their investors were enacted (the "SIFT Rules"). Under the amended tax legislation, certain income earned by these entities will be taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made by these entities to investors will be taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend will be eligible for the new enhanced dividend tax credit if paid or allocated to a resident of Canada. The SIFT Rules were effective for the 2007 taxation year for trusts and

partnerships that commenced public trading after October 31, 2006, but will generally be delayed until the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, such as the Fund. However, the deferral until 2011 may be rescinded where the affected entity does not comply with the Department of Finance's "normal growth" guidelines.

The Fund is currently considering the SIFT Rules and the "normal growth" guidelines and the impact they will have on the Fund and its investors. However, are not expected to have an immediate impact on the Fund's tax treatment or distribution policy or the tax treatment of distributions to investors.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents and partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion which did not include these proposed changes. The Department of Finance indicated that the implementation of the proposed changes would be suspended pending further consultation with interested parties.

Interest on the Trust Notes accrues to the Fund for Canadian federal income tax purposes, whether or not actually paid. The Fund Declaration of Trust provides that a sufficient amount of the Fund's earnings and net realized capital gains will be distributed each year to Unitholders in order to eliminate the Fund's liability for tax under Part 1 of the Tax Act. Where such amount of net income (including interest on the Trust Notes) and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

Prior to any conversion of Class B Interests, distributions on Class B Interests paid to KTL LLC and Brookfield US will be taxed directly or indirectly in the hands of Brookfield US. Following the conversion of all or a portion of the Class B Interests into Units, such distributions may become income of one or more subsidiaries of the Fund which in turn may be subject to increased Canadian or US income taxes as a result. Any such increased tax liability could have a negative impact on distributable cash of the Fund.

Limitation on Potential Growth

The payout by the Partnership of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Partnership and its cash flow.

Restrictions on Certain Unitholders and Liquidity of Units

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning either more than 49.9% of Units and/or the Special Voting Units (on a non-diluted and a fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents of Canada and U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Statutory Remedies

The Fund is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of the Fund were necessary, the Fund and its stakeholders may not be able to access the remedies and procedures available thereunder.

DESCRIPTION OF THE FUND

General

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. It is intended that the Fund will qualify as a “unit trust” and a “mutual fund trust” for the purposes of the Tax Act, although the Fund is not a mutual fund under applicable securities laws. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. A copy of the Fund Declaration of Trust is available on SEDAR at www.sedar.com

Units and Special Voting Units

An unlimited number of Units and an unlimited number of Special Voting Units may be issued pursuant to the Fund Declaration of Trust. There are presently 16,571,453 Units outstanding. There are presently no Special Voting Units outstanding. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of earnings, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the holders thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Voting Units will not be entitled to any beneficial interest in any distribution from the Fund whether of earnings, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding up of the Fund. Special Voting Units may, however, be redeemed by the holder at any time for no consideration.

The Special Voting Units may be issued in series and will only be issued in connection with or in relation to Class B LP Units or other securities that are, directly or indirectly, exchangeable for Units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities. Special Voting Units will be issued in conjunction with, and will not be transferable separately from, the Class B LP Units (or other exchangeable securities) to which they relate. Conversely, the Special Voting Units will automatically be transferred upon a transfer of the associated securities. Each Special Voting Unit will entitle the holder thereof to a number of votes at any meeting of Voting Unitholders equal to the number of Units which may be obtained upon the exchange of the Class B LP Unit (or other exchangeable security) to which the Special Voting Unit relates.

Issuance of Units

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder’s share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be

required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

The Trustees may refuse to allow the issue or register the transfer of any Units, where such issuance or transfer would, in their opinion, adversely affect the treatment of the Fund or the entities in which it directly or indirectly invests under applicable Canadian tax legislation or their qualification to carry on any relevant business. See “Limitation on Non-Resident Ownership”.

Distributions

The Fund makes monthly distributions of its distributable cash to Unitholders. The amount of the Fund’s distributable cash is equal to the interest and principal repayments on the Trust Notes owned by the Fund and the distributions (if any) on or in respect of the Trust Units and shares of the GP owned by the Fund less: (i) administrative expenses and other obligations of the Fund; (ii) amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units; (iii) satisfaction of the Fund’s debt service obligations (principal and interest) on indebtedness, if any; and (iv) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of the Fund).

The Fund may make additional distributions in excess of the aforementioned monthly distributions during the year, as the Trustees may determine.

The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the Tax Act in such year. Prior to the announcement of such distribution, the Fund will advise the holders of the Class B Interests as to the expected amount of such distribution and such holders shall have not less than five business days in which to exercise their conversion rights in order to be eligible to receive such distribution, as Unitholders of record on the record date in respect of such distribution.

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. The Declaration of Trust provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution (except where tax was required to be withheld in respect of the Unitholder’s share of the distribution as described below). In this case, each certificate representing a number of Units prior to the non-cash distribution will be deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units.

The Fund makes monthly cash distributions to Unitholders of record on the last business day of each month, and the distributions are paid on or about the 15th day following the end of each month.

Unitholders who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof. As the Units are issued in book-entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- (i) 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- (ii) 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Unit as at a specified date will be:

- (i) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date;
- (ii) an amount equal to the weighted average of the closing market prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- (iii) if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, an amount equal to the simple average of the following prices established for each of the 10 consecutive trading days ending on such date: the simple average of the last bid and last asking prices of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The "closing market price" of a Unit for the purpose of the foregoing calculations, as at any date, will be:

- (i) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date and the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;
- (ii) an amount equal to the closing price of a Unit on the principal market or exchange, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- (iii) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- (iv) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (i) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- (ii) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive the Redemption Price in cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution *in specie*. In such circumstances, the Unitholder will receive his or her pro rata share of the \$50,000, unless the *in specie* redemption arises because of (ii) or (iii), above. In addition, Trust Units and Series 1 Trust Notes of a value equal to any portion of the Redemption Price not satisfied in cash will be redeemed by the Trust in consideration of the issuance to the Fund of Series 2 Trust Notes and Series 3 Trust Notes, respectively. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed in satisfaction of the remaining portion of the Redemption Price. No Series 2 Trust Notes or Series 3 Trust Notes in integral multiples of less than \$100 will be distributed and, where the number of securities of the Trust to be received by a Unitholder includes a multiple of less than \$100, that number shall be rounded to the next lowest integral multiple of \$100 and the difference shall be paid in cash. The Fund will be entitled to all interest paid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution *in specie*. Where the Fund makes a distribution *in specie* of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of Trust Units and Series 1 Trust Notes in exchange for Series 2 Trust Notes and Series 3 Trust Notes, respectively, or as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder on the redemption of such Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 Trust Notes and Series 3 Trust Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Series 2 Trust Notes or Series 3 Trust Notes and they may be subject to resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for trusts governed by Plans depending upon the circumstances at the time.

Repurchase of Units

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Voting Unitholders

The Fund Declaration of Trust provides that meetings of Voting Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund. The Fund Declaration of Trust provides that the Voting Unitholders are entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees;
- the election or removal of nominees of the Fund to serve as trustees of the Trust;

- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under “Amendments to the Fund Declaration of Trust”);
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust and the GP held by the Fund, to the securities of the LP that are held by the Trust, the securities of the Operating LP that are held by the GP or the LP, the securities of CanCo that are held by the LP, the securities of USCo that are held by CanCo and the securities of KFM LLC that are held by USCo. See “— Exercise of Certain Voting Rights Attached to Securities of the Trust, the GP, the LP and the Operating LP”;
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval,

provided that the Voting Unitholders shall not pass any resolution that would cause the Fund, the Trust, the GP, the LP, the Operating LP, USCo, CanCo, KFM LLC or their respective subsidiaries to breach the terms of the Support and Registration Rights Agreement, the FP Exchange Agreement, the LP Agreement, the Crown Lands Services Agreement, the Fibre Supply Agreement, or the Management Agreement or that would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act.

No other action taken by Voting Unitholders or any other resolution of the Voting Unitholders at any meeting will in any way bind the Trustees.

A resolution electing or removing nominees of the Fund to serve as trustees of the Trust (except filling casual vacancies) or with respect to the exercise of certain voting rights attached to the securities of the Trust, the GP, the LP, the Operating LP or any of their respective subsidiaries that are directly or indirectly owned or controlled by the Fund, a resolution required by securities law, stock exchange rules or other laws or regulations requiring a simple majority of Voting Unitholders, and a resolution appointing or removing the Trustees or the auditors of the Fund must be passed by a simple majority of the votes cast by Voting Unitholders. The balance of the foregoing matters must be passed by a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Voting Units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Voting Units entitled to vote on such resolution (a “Special Resolution”).

Subject to the foregoing limitations, a meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxyholder need not be a Unitholder or a holder of Special Voting Units. Two persons present in person or

represented by proxy and representing in total at least 10% of the votes attached to all outstanding Voting Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefits of non-residents of Canada within the meaning of the Tax Act and, pursuant to certain proposed amendments to the Tax Act, not more than 50% of the aggregate fair market value of the Units and the Special Voting Units (on both a non-diluted and fully-diluted basis for these purposes) may be held by non-residents of Canada and/or partnerships (other than Canadian partnerships as defined in the Tax Act). Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada and/or partnerships, other than Canadian partnerships, be the beneficial owners of more than 49.9% of the Units and/or Special Voting Units (on both a non-diluted and fully-diluted basis for these purposes). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units and Special Voting Units are resident or as to their status as Canadian partnerships.

If the Trustees become aware that the beneficial owners of more than 49.9% of the Units and/or Special Voting Units then outstanding (on both a non-diluted and fully-diluted basis for these purposes) are or may be non-residents and/or partnerships, other than Canadian partnerships, or that such a situation is imminent, the Trustees may make a public announcement thereof and will not accept a subscription for Units from, or issue or register a transfer of Units to, any person unless the person provides a declaration that he or she is not a non-resident or a partnership other than a Canadian partnership. If, notwithstanding the foregoing, the Trustees determine that more than 49.9% of the Units and/or Special Voting Units (on both a non-diluted and fully-diluted basis for these purposes) are held by non-residents and/or partnerships other than Canadian partnerships, they may send a notice to such holders of Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period determined by the Trustees. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents or a partnership other than a Canadian partnership within such period, the Trustees may sell such Units on behalf of such Unitholders, and in the interim, the voting and distribution rights attached to such Units will be suspended. Upon such sale, the affected holders will cease to be holders of the Units and their rights will be limited to receiving the net proceeds of such sale.

Amendments to the Fund Declaration of Trust

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Voting Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Voting Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (i) which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a “mutual fund trust”, within the meaning of the Tax Act;
- (ii) which provide additional protection or added benefits for the Voting Unitholders;
- (iii) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Voting Unitholders; and

- (iv) which are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdictions over the Trustees of the Fund.

Notwithstanding the previous sentence, the Trustees may not (without the approval of the Voting Unitholders) amend the Fund Declaration of Trust in a manner which would result in the Fund failing to qualify as a “mutual fund trust” under the Tax Act.

Term of the Fund

The Fund Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the Trust Units, the Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private net sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the Trust Units, the Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustees are unable to sell all or any of the Trust Units, the Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, the Trust Notes or other assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals. Voting Unitholders may, at any time, by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

Take-over Bids

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (excluding Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

Exercise of Certain Voting Rights Attached to Securities of the Trust, the GP, the LP and the Operating LP

The Fund Declaration of Trust provides that the Fund will not vote any securities of the Trust or the GP, nor permit the Trust to vote any securities of the LP, the directors of the GP to vote any securities of the Operating LP or the LP or any of their respective subsidiaries to authorize any transaction which is adverse to the Unitholders including, among other things:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, the GP, the LP, the Operating LP or KFM LLC or any of their respective subsidiaries except in conjunction with an internal reorganization or good faith pledges or mortgages in the ordinary course of business or in connection with permitted guarantees of the Trust, the GP, the LP, the Operating LP or KFM LLC as applicable, or permitted charge, pledge or lien;
- any amalgamation, arrangement or other merger of the Trust, the GP, the LP, the Operating LP or KFM LLC or any of their respective subsidiaries with any other entity, except in conjunction with an internal reorganization;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Notes to the Fund that are identical in all respects to the Notes issued in connection with the Offering or in conjunction with an internal reorganization;

- the winding-up or dissolution of the Trust, the GP, the LP, the Operating LP or KFM LLC prior to the end of the term of the Fund other than pursuant to an internal reorganization; or
- any material amendment to the constating documents of the Trust, the GP, the LP or KFM LLC to change the authorized units, share capital or partnership interests which would be prejudicial to the Fund,

without the authorization of the Voting Unitholders by a Special Resolution.

Information and Reports

The Fund will furnish to Voting Unitholders, in accordance with applicable securities laws, all financial statements of the Fund (including quarterly and annual financial statements and certifications) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholder's tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Voting Unitholders, the Trustees will provide to the Voting Unitholders (along with notice of the meeting) all information, together with such certifications, as is required by applicable law and by the Fund Declaration of Trust provided to Voting Unitholders.

In addition, the GP has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and to the Fund that, for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- to the extent that the Fund does not do so, issue a press release and deliver to the Fund for filing a material change report in respect of any material change in the LP's business, operations or capital;
- provide to the Fund the information that would be required to be included in an annual information form or any other report or document required to be filed with the securities commissions or other securities regulatory authorities as if the LP were reporting issuers in each of the provinces and territories of Canada; and
- to the extent that the Fund does not prepare financial statements including the LP's results of operations, deliver to the Fund quarterly unaudited and annual audited financial statements together with corresponding management's discussion and analysis for those periods for filing with the securities commissions or other securities regulatory authorities in each of the provinces of Canada and delivery to the Fund's registered and beneficial Voting Unitholders in accordance with applicable securities laws.

Such releases, forms, reports and statements, in each case, shall be in the form and content that the LP would be required to file with the Ontario Securities Commission as if it were a reporting issuer under Ontario securities laws. The quarterly unaudited and annual audited financial statements of the LP will be delivered by the Fund to Voting Unitholders concurrently with the financial statements of the Fund for the corresponding period.

In future interim and annual filings, the Fund will include relevant information and discussions comparing the Fund's business with the predecessor business. The Fund believes that comparative financial information relating to net sales, cost of sales and general and administrative expenses of Fraser Papers' Timberlands Business and KFM LLC are appropriate to include in the operating results of the Fund. The information will be provided on a comparative basis in future interim and annual management discussion and analysis.

The chief executive officer and chief financial officer of the GP performs functions similar to a chief executive officer and chief financial officer in respect of the Fund. As such the chief executive officer and chief financial officer of the GP will execute the certificates required to be filed pursuant to Multilateral Instrument 52-109 — "Certification of Disclosure in Issuers' Annual and Interim Filings".

Trustees of the Fund, the Trust's trustees and directors and officers of subsidiaries of the Fund, including the GP, as well as the directors and officers of the Manager, will be required to file insider reports and comply with insider

trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units and LP Units and Class B Interests of KFM LLC.

In addition, the Fund has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada that for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- treat the LP as a subsidiary of the Fund; however, if generally accepted accounting principals prohibit the consolidation of financial information of the LP and the Fund, for as long as the LP (and any of its significant business interests) represents significant assets of the Fund, the Fund will provide unitholders with separate financial statements for the LP (and any of its significant business interests);
- take appropriate measures to require each person who would be an insider of the GP if the GP were a reporting issuer to (a) file insider reports about trades in trust units of the Fund (including securities which are exchangeable into trust units of the Fund), and (b) comply with statutory prohibitions against insider trading; and
- annually certify that it has complied with this undertaking, and file the certificate on the System for Electronic Document Analysis and Retrieval (SEDAR) concurrently with the filing of its annual financial statements.

Book-Entry Only System

Registration of interests in and transfers of the Units are made through a book-based system (the “Book-Entry System”) administered by CDS. Units may be purchased, transferred and surrendered for redemption through a participant in the CDS depository service (a “CDS Participant”). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon a purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased. References in this Annual Information Form to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The Fund has the option to terminate registration of the Units through the Book-Entry System in which case certificates for the Units in fully-registered form would be issued to beneficial owners of such Units or their nominees.

Conflicts of Interest Restrictions and Provisions

The Fund Declaration of Trust contains “conflict of interest” provisions that serve to protect Voting Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act* (the “CBCA”), that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate.

Rights of Unitholders

Following the completion of the Offering, the rights of the Unitholders will be established by the Fund Declaration of Trust. Although the Fund Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a shareholder of a corporation governed by the CBCA, there do exist significant differences.

The Fund Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the Fund, although no statutory provisions historically confirmed the limited liability status of Unitholders in a manner comparable to shareholders of a CBCA corporation. However, on December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004*, a new Ontario statute included in Bill 106, received Royal Assent. That statute provides that Unitholders of the Fund are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Fund or the Trustees, arising after December 16, 2004. That statute has not yet been judicially considered and it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect trustees and auditors. The Fund Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and trustees, the quorum for and procedures at such meetings and the right of investors to participate in the decision making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Fund Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund's subsidiary entities, as described under "Description of the Fund Exercise of Certain Voting Rights Attached to Securities of the Trust, the GP, the LP and the Operating LP". These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are "reporting issuers" or the equivalent or listed on the TSX.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to have their Units redeemed through the exercise of the redemption rights provided by the Fund Declaration of Trust, as described under "— Redemption at the Option of Unitholders". Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregarding the interests of securityholders and certain other parties.

Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Fund Declaration of Trust which permit the winding up of the Fund with the approval of a Special Resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Fund Declaration of Trust allows Unitholders to pass resolutions appointing an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight or assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Fund Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

Financial Year End

The fiscal year end of the Fund is December 31 annually.

THE MANAGER

Brookfield Timberlands Management LP (the “Manager”) assists in the preparation and implementation of the overall strategic plan in respect of the assets of the Operating LP, as well as monitoring and assisting with the day-to-day operations of the assets of the Operating LP, pursuant to the Management Agreement between Operating LP, Fraser Papers, KFM LLC, and the Manager.

The Manager’s services to the Operating LP and KFM LLC are provided under the Management Agreement pursuant to which the Manager is responsible for advising the Operating LP and KFM LLC on the best manner in which to manage, hold and dispose of the assets of the Operating LP and to assist and advise with the preparation of, and supervise the implementation of, the overall strategic plan in respect of the assets of the Operating LP. The Management Agreement expires on October 3, 2025, unless terminated in accordance with its terms, subject to automatic renewals for successive ten year terms.

In connection with its duties, the Manager, under the oversight, direction and authority of the Trustees and subject to adherence with the Fund’s overall strategic plan from time to time, is responsible for, among other things:

- advising with respect to marketing and sales;
- advising on all significant fibre supply commitments;
- overseeing the preparation of operational plans and budgets and making recommendations in respect thereof to KFM LLC and the Operating LP;
- monitoring and overseeing internal management teams, operational plans, and operating activities;
- advising with respect to the best practices and new developments in silviculture and other forestry practices;
- advising and assisting with proposed financings;
- advising and assisting with acquisitions and dispositions;
- advising and assisting with community and investor relations;
- overseeing the Fund’s reporting requirements under applicable law;
- providing oversight of tax planning activities and oversight related to the preparation of income tax returns;
- providing assistance with the coordination and oversight of legal services;
- providing oversight of information technology support and services;
- providing oversight of certain treasury services; and
- overseeing and coordinating the issuance of press releases approved by the Board.

In consideration for the provision of its services, the Management Agreement entitles the Manager to:

- an annual base fee (payable quarterly) in an amount equal to (i) \$2 million (subject to adjustment based on the Consumer Price Index), plus (ii) 1.25% of the positive difference, if any, between the Asset Value of the Fund (calculated as at the end of each fiscal quarter of the Fund) and the Asset Value of the Fund on the date of the Fund’s initial public offering, January 31, 2006 (subject to adjustment based on the Consumer Price Index); and

- an annual performance fee equal to 15% of the amount by which distributable cash per Unit of the Fund in respect of the applicable year exceeds \$0.9075, multiplied by the number of Units outstanding as at the end of such year.

The Asset Value of the Fund shall be calculated as the aggregate undepreciated book value of the Fund's timberland assets, as reflected on the Fund's consolidated balance sheet at the end of the applicable quarter.

The Manager is a wholly-owned subsidiary entity of Brookfield. Brookfield and its affiliates holds 45.3% of the Fund Units.

In performing its responsibilities and satisfying its obligations under the Management Agreement, the Manager is required to exercise its powers and discharge its duties in a manner which is fair and reasonable and to act at all times honestly, in good faith and in the best interests of each of KFM LLC and the Operating LP, and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent forestry management expert performing similar functions would exercise in comparable circumstances.

The Manager is responsible for all of its own expenses, including administrative costs, employment expenses of its personnel, rent and other overhead expenses of the Manager, and expenses of the Trustees and officers of the GP who are also officers or employees of the Manager or of an affiliate of the Manager (except expenses incurred in attending meetings of the Trustees).

Each of the Operating LP and KFM LLC may terminate the engagement of the Manager under the Management Agreement in respect of itself (i) in the event of the insolvency or receivership of the Manager, or (ii) in the case of material breach or default by the Manager of the provisions of the Management Agreement relating to the Operating LP or KFM LLC, as applicable, which is not remedied within 60 days following delivery of written notice thereof (unless such breach is capable of being cured and the Manager is working diligently to cure such default).

The Manager may terminate its engagement as manager under the Management Agreement in respect of the Operating LP or KFM LLC (i) in the event of the insolvency or receivership of the Operating LP or KFM LLC, as applicable, or (ii) in the case of material breach or default by the Operating LP or KFM LLC, as applicable, of the provisions of the Management Agreement which is not remedied within 60 days following delivery of written notice thereof (unless such breach is capable of being cured and the applicable party is working diligently to cure such default).

The Operating LP and KFM LLC are required to indemnify the Manager and its directors, officers, employees, shareholders, agents and affiliates, in certain circumstances, unless the claim to which the indemnity relates arises as a result of the gross negligence, willful misconduct or fraud of the indemnified party.

DEBT FINANCING

The LP entered into senior secured credit facilities on January 31, 2006, which include a revolving credit facility of up to \$5.0 million (the "Revolving Facility") and a term credit facility in an amount up to \$42.0 million (the "Term Facility"). As at December 31, 2008, no funds had been drawn on the revolving credit facility. The term facility is fully drawn. The Term Facility and the Revolving Facility are collectively referred to herein as the "Credit Facilities".

The Revolving Facility is used for general corporate purposes, including the payment of distributions, as required due to cash flow fluctuations. The Revolving Facility may be extended on a yearly basis pursuant to its terms and is presently available until January 29, 2010. The Term Facility, the term of which was extended in 2008 and will mature January 29, 2010, has no scheduled repayments of principal required prior to maturity. There can be no assurance that future borrowings, whether as a refinancing of the Credit Facilities or otherwise, will be available to the LP, or available on acceptable terms, in an amount sufficient to fund the LP's needs. See "Risk Factors — Leverage and Restrictive Covenants in Agreements Relating to Indebtedness of the Partnership".

Advances under the Revolving Facility and the Term Facility are prepayable without any prepayment penalties or bonus (subject to normal breakage costs) and will bear interest at a floating rate based on the Canadian dollar prime rate, U.S. base rate, LIBOR or banker's acceptance rates plus, in certain cases, an applicable margin to those rates.

As security for the Credit Facilities, the LP granted the lenders a security interest over all of its assets. The Operating LP and each of the LP's other subsidiaries guaranteed the indebtedness of the LP under the Credit Facilities and granted security interests over all of their respective assets. In addition, each of the Fund, the Trust and the GP guarantee the indebtedness of the LP under the Credit Facilities, with the Trust's guarantee secured by all of its assets, including its Class A LP Units and the GP's guarantee secured by all of its assets, including its general partnership interest in the LP and the Operating LP.

The Credit Facilities are subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The Credit Facilities are also subject to the maintenance of a maximum ratio of debt to EBITDA and a minimum ratio of EBITDA to interest expense (EBITDA will be separately defined for such purposes in definitive documentation in respect of the Credit Facilities). The LP is in compliance with these covenants as of December 31, 2008. The Credit Facilities may in certain circumstances restrict the LP's ability to pay distributions on the LP Units, including limiting distributions unless sufficient funds are available for the repayments of indebtedness and the payment of interest expenses and taxes.

The failure to comply with the terms of the Credit Facilities would entitle the lenders to accelerate all amounts outstanding under the Credit Facilities, and upon such acceleration, the lenders would be entitled to begin enforcement procedures against the assets of the LP, the Trust, the GP and/or their subsidiaries, including accounts receivable, work in progress and equipment. The lenders would then be repaid from the proceeds of such enforcement proceedings, using all available assets. Only after such repayment and the payment of any other secured and unsecured creditors would the holders of Units receive any proceeds from the liquidation of the assets of the Fund, the LP, the Trust, the GP or their subsidiaries.

KFM LLC currently has a credit facility of up to US\$31.5 million, which is fully drawn (the "KFM Credit Facility"). The Credit Facility may be used for general corporate purposes, including the payment of distributions required due to cash flow fluctuations. The KFM Credit Facility will mature in February 27, 2011.

As security for the KFM Credit Facility, KFM LLC has granted the lender a security interest over all of its assets. The failure of KFM LLC to comply with the terms of the KFM Credit Facility would entitle the lenders to begin enforcement proceedings against KFM LLC as creditors. In respect of any proceeds resulting from such proceedings, the lenders, as creditors, will have a prior ranking claim relative to the shareholders of KFM LLC.

The KFM Credit Facility is subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lender. The KFM LLC Credit Facility requires KFM LLC to post additional security if the amount of the loan plus certain expenses exceeds 70% of the value of the Maine Timberlands and is subject to a minimum ratio of cash flow (EBITDA minus capital expenditures) to debt service payments (sum of all principal and interest required to be paid during the relevant period). The KFM Credit Facility may in certain circumstances restrict KFM LLC's ability to pay distributions on its membership interests, including if a default or event of default is in existence or if KFM LLC does not reasonably believe it will have sufficient cash flow to pay the remaining interest payments and other financial obligations under the agreement.

RETAINED INTEREST/ PRINCIPAL UNITHOLDERS

The following table shows the name and information about the securities of the Fund directly or indirectly beneficially owned by each person or company who, as at February 2, 2009, own of record, or who, to the knowledge of the Fund, own beneficially, directly or indirectly, more than 10% of any class or series of voting securities of the Fund.

<u>Name</u>	<u>Number of Units of the Fund Owned</u>	<u>Type of Ownership</u>	<u>Percentage Owned</u>
Brookfield (or one of its affiliates)	7,513,262	Direct	45.3%

PRINCIPAL AGREEMENTS

The following is a description of certain principal agreements to which the Fund or any of its subsidiary entities is a party.

Crown Lands Services Agreement

Fraser Papers currently holds licences from the Government of the Province of New Brunswick in respect of the Crown Lands. Fraser Papers has the right to approximately 17% of the annual harvest from the Crown Lands in consideration for a royalty fee paid to the Crown. Approximately 83% of the annual harvest from the Crown Lands is sub-licensed to third parties who are entitled to cut and harvest timber for their own use on payment of the royalty fee to the Crown and payment of a management fee to Fraser Papers. On January 31, 2006, the Operating LP and Fraser Papers entered into the Crown Lands Services Agreement pursuant to which the Operating LP agreed to provide services under Fraser Papers' direction relating to the Crown Lands. Under the Crown Lands Services Agreement, the Operating LP charges Fraser Papers the following prescribed fees: (i) Acadian's cost of production (including harvest cost, transportation, access road construction and maintenance), and (ii) a service fee (calculated in $\$/m^3$) as consideration for its services under the Crown Lands Services Agreement. The service fee charged by Acadian will be audited by an independent auditor every five years. The service fee is fixed for those five years with an embedded annual adjustment based on the New Brunswick Consumers Price Index. As manager of the Crown Lands under the Crown Timber Licenses, Fraser Papers is responsible for collecting and paying to the Government a royalty fee (calculated in $\$/m^3$ that varies based on species and product type). A levy fee (calculated in $\$/m^3$ for silviculture spending that differs for softwood and hardwood) is administered for volume harvested on the License. Acadian assists Fraser Papers by collecting such amounts from sub-licensees.

Pursuant to the Crown Lands Services Agreement, the Operating LP provides services to Fraser Papers and the sub-licensees, including: harvest planning and preparation; filing and administration of all management plan and other compliance requirements; scaling services; management of waybills; road construction and maintenance; and accounting services, consistent with services provided by Fraser Papers to sub-licensees in the past. The Operating LP is obligated to, among other things, conduct all operations in compliance with all laws and regulations and all material operating policies adopted by Fraser Papers, acting reasonably, and to comply with all terms, conditions and obligations set out in the Crown Timber Licenses.

Pursuant to the Crown Lands Services Agreement, Fraser Papers covenants to take all commercially reasonable actions required in order to maintain the Crown Timber Licenses in good standing. If any action taken by Fraser Papers results in the loss of a Crown License and the loss of Fraser Papers' entitlement to manage a Crown License, within three years following January 31, 2006, then Fraser Papers will reimburse to Acadian any one-time severance costs associated with a reduction in the number of Acadian's employees, up to an aggregate maximum of \$2.5 million, within three months following any such loss.

The Crown Lands Services Agreement has a term equal to the term of the Crown Timber Licenses, including any renewal terms. The Crown Lands Services Agreement may be terminated in the event of the insolvency or

receivership of another party, or in the case of default by one of the other parties in the performance of a material obligation of the Crown Lands Services Agreement (other than as a result of the occurrence of a *force majeure* event) which is not remedied within 60 days following delivery of written notice thereof, subject to any applicable cure periods.

Fibre Supply Agreement

On January 31, 2006, the Operating LP and Fraser Papers entered into the Fibre Supply Agreement pursuant to which the Operating LP agrees to sell forest products of the types described therein, which are harvested from the NB Timberlands, at prescribed volumes and according to established specifications. The Fibre Supply Agreement has a term of 20 years, with Fraser Papers having the right to renew for an additional five years.

The Fibre Supply Agreement sets forth the specifications and minimum quantities of fibre to be made available to Fraser Papers for purchase during the period from January 31, 2006 to December 31, 2010 (the "Initial Period"). For each calendar year thereafter until expiry of the term of the agreement, quantities of fibre to be made available to Fraser Papers for purchase will be as set out in the Operating LP's annual plan ("Annual Plan) for harvesting, subject to minimum volumes for any given calendar year of not less than the Allowable Cut (as defined below) for such calendar year. Pursuant to the Fibre Supply Agreement, Fraser Papers will have the right to purchase all of the spruce/fir softwood LRSY each year from the NB Timberlands.

The Operating LP is obligated to develop prior to October 1, 2010, a five-year forest management plan (the "Forest Management Plan") with respect to the NB Timberlands to establish an annual allowable volume of fibre in each calendar year after expiration of the Initial Period (the "Allowable Cut"). The Forest Management Plan will also set out the criteria to be used in the establishment of each Annual Plan and the Allowable Cut for any given year as set forth in the Forest Management Plan will be included in the Annual Plan. The Operating LP is required to update the Forest Management Plan not later than 2 months prior to each successive fifth anniversary of its implementation. The Operating LP will agree to consult with Fraser Papers in connection with the adoption of the Forest Management Plan, any subsequent modification thereto and any Annual Plan pursuant thereto. Approval of the Forest Management Plan and each Annual Plan and any modifications thereto (other than modifications required in order to comply with applicable law or regulations) will require the prior consent of Fraser Papers, which consent may not be unreasonably withheld or delayed. Fraser Papers is entitled to change the specifications relating to its fibre requirements, provided that in no event will the Operating LP be required to cut more than the Allowable Cut to meet such changes.

Pricing under the terms of the Fibre Supply Agreement is specified for the period from January 31, 2006 to December 31, 2006. Thereafter, for each six calendar month period (a "Price Period"), the price for each category of fibre will be equal to the weighted average, freight-adjusted prices charged to the lumber mills and pulp facilities owned and operated by Fraser Papers and its affiliates by their five highest-volume, un-affiliated suppliers for such category of fibre (and excluding deliveries from the Acadian Timberlands), calculated with reference to deliveries made during the six-month period immediately preceding such Price Period.

Under the terms of the Fibre Supply Agreement, the Operating LP is entitled to satisfy its fibre supply commitments to Fraser Papers by delivering fibre from lands other than the NB Timberlands, provided that such source is approved in advance by Fraser Papers in its sole discretion.

In addition, the Fibre Supply Agreement provides that Fraser Papers is entitled to purchase additional hardwood volumes of fibre in order to effect current and future fibre exchanges. Pricing for such fibre will be determined based upon the weighted-average, freight-adjusted prices paid to the Operating LP by third party purchasers of the same products.

In the event that the Operating LP is unable (other than for reasons of *force majeure*) to supply timber in a timely fashion, the Operating LP will be liable to reimburse Fraser Papers for its incremental cost of obtaining such fibre from an alternative source.

Fraser Papers has the right, at any time and from time to time, to reduce for any reason, including a temporary or permanent facility closure, the amount of fibre purchased pursuant to the Fibre Supply Agreement (provided that Fraser Papers reduces purchases from each of its suppliers by a proportionate amount), on not less than 60 days' advance notice to the Operating LP. In such circumstances, the Operating LP will be entitled to find alternate markets for this fibre; however, Fraser Papers will be entitled to reinstate quantities of fibre within 18 months following such reductions, on 60 days' advance notice to the Operating LP, provided that Fraser Papers has not exercised its right to reinstate quantities of fibre pursuant to this provision within the preceding twelve months. In the event that Fraser Papers reinstates its volumes, it will not be required to make up for the volume not purchased during such period.

The Fibre Supply Agreement may be terminated in the event of a default by another party in the performance of a material obligation of the Fibre Supply Agreement (other than as a result of the occurrence of a *force majeure* event) which is not remedied within 30 days following delivery of written notice thereof (unless such default is capable of being remedied and the applicable party is working diligently to remedy such default). In addition, the Fibre Supply Agreement may be terminated by the Operating LP in the event of the termination of the Crown Lands Services Agreement as a result of a breach of such agreement by Fraser Papers.

KPC LLC Fibre Supply Agreement

KFM LLC is currently a party to a wood fibre supply agreement (the "KPC LLC Fibre Supply Agreement") with KPC LLC, a wholly-owned subsidiary of Brookfield, the owner and operator of two paper mills in each of Millinocket and East Millinocket, Maine that are currently managed by Fraser Papers. Pursuant to the KPC LLC Fibre Supply Agreement, KFM LLC supplies to KPC LLC roundwood pulpwood harvested from the Maine Timberlands, at a prescribed volume of 70% of all roundwood pulpwood produced by KFM LLC in each semi-annual period and in accordance with established specifications and subject to the right of KPC LLC to reduce such amount in certain circumstances. The KPC LLC Fibre Supply Agreement has a term of 10 years, with an expiry date in February 2014, and may be extended for an additional five year term at the request of KPC LLC.

The parties to the KPC LLC Fibre Supply Agreement are obligated to negotiate, twice per calendar year, semi-annual plans (each, a "Semi-Annual Plan") to govern the purchase and delivery of roundwood pulpwood from KFM LLC to KPC LLC. If the parties cannot agree on a Semi-Annual Plan for the half-year in question, the Semi-Annual Plan applicable to the immediately preceding period continues in effect so that a failure of the parties to reach agreement on the terms contained therein will not constitute a breach of the KPC LLC Fibre Supply Agreement invoking a right to terminate the agreement or otherwise disrupt operations.

Subject to certain conditions such as KFM LLC's obligation to mitigate its losses, where KPC LLC experiences a significant decrease in its supply requirement or a material change in established specifications, the parties are obligated to engage in good faith negotiations to accommodate such changes, in some cases without liability to KPC LLC and without obligation on the part of KPC LLC to make up the volume not purchased or produced as a result of any decrease in its supply requirements. In circumstances other than where there is a material change in KPC LLC's supply requirements and KPC LLC fails to purchase the quantities of roundwood pulpwood required by the Agreement (for reasons other than those constituting an event of *force majeure*), KFM LLC may be entitled to recover any procurement costs. KFM LLC may similarly be required to reimburse KPC LLC in circumstances where it fails to supply the quantity of product required under the KPC LLC Fibre Supply Agreement and KPC LLC procures the required product from an alternate supply source at a cost to it that is greater than it would otherwise have incurred under the KPC LLC Fibre Supply Agreement.

Pricing under the terms of the KPC LLC Fibre Supply Agreement is determined semi-annually as of January 1 and July 1 of each calendar year during the term and remains in effect for the applicable six-month period. Pricing is determined with regard to the transportation cost-adjusted and volume-weighted average price KPC LLC actually paid in arm's length transactions with other suppliers during the prior six-month period. The parties are obligated to decide upon and use a more appropriate pricing determination method if the above method produces a result that is not a reliable indicator of actual market conditions.

Fraser Papers/KFM LLC Fibre Supply Agreement

KFM LLC is currently a party to a wood fibre supply agreement (the “Fraser Papers/KFM LLC Fibre Supply Agreement”) with Fraser Paper, the owner and operator of sawmills and paper mills located in the Maine, New Hampshire and New Brunswick regions. Pursuant to the Fraser Papers/KFM LLC Fibre Supply Agreement, KFM LLC supplies to Fraser Paper, in accordance with established specifications, fibre harvested from the Maine Timberlands at a fixed price reset to market price every six months. The Fraser Papers/KFM LLC Fibre Supply Agreement has a term of 10 years and expires in February 2014, subject to extension for an additional five year term at the request of Fraser Paper.

There are no minimum or maximum amounts of fibre that KFM LLC is obligated to make available to Fraser Paper for purchase. The parties are required to agree on partial-year plans (each, a “Plan”) to govern the purchase and delivery of fibre from KFM LLC to Fraser Paper at competitive market prices.

Exclusivity Agreement

On January 31, 2006, Brookfield and the Operating LP entered into the Exclusivity Agreement pursuant to which Brookfield agreed not to, directly or through an affiliate, own or manage timberlands (other than timberlands that are ancillary to businesses or assets in which Brookfield holds an interest) located within the provinces of Ontario, Quebec, Nova Scotia, New Brunswick, PEI, Newfoundland and the states of Connecticut, Maine, Massachusetts, New Jersey, New Hampshire, New York, Pennsylvania, Rhode Island and Vermont, for so long as Brookfield indirectly owns, directly or through any of its affiliates, any Class B Interests in KFM LLC or 10% or more of the outstanding Units (on a fully-diluted basis) provided that Brookfield remains bound by the terms of this agreement at all times during which Brookfield (or an affiliate of Brookfield) remains the exclusive Manager of the Acadian Timberlands pursuant to the Management Agreement. In addition, during the term of the Exclusivity Agreement, Brookfield is entitled to hold interests representing less than 5% of the publicly-traded equity securities (including securities convertible into such equity securities) of companies or other entities conducting a timberlands business.

DISTRIBUTIONS

Distributions per Unit

The following table sets forth the aggregate distributions declared in respect of the Units for 2006-2008:

Period	Distributions Per Unit
2006	\$0.7585
2007	\$0.8250
2008	\$0.8250

Distribution Policy

Refer to "Description of the Fund — Distributions".

MARKET FOR SECURITIES

The Units are currently listed for trading on the TSX under the symbol ADN.UN. None of the units of the Trust, the LP, or the Operating LP, or the shares of KFM LLC, CanCo, or USCo are listed for trading on a recognized exchange nor is there a market for such securities. The following table sets forth the price ranges and volume traded for Units on the TSX for each month during 2008:

Unit Trading Price Range	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
High	10.44	10.26	10.40	10.75	10.90	11.25	10.95	10.09	10.10	9.89	7.24	7.00
Low	9.85	9.90	10.00	10.15	10.55	10.55	10.00	9.34	9.05	6.30	5.86	5.95
Close	10.25	10.15	10.05	10.75	10.80	10.96	10.10	9.34	9.92	7.27	6.00	6.60
Average Daily Volume	9,165	11,424	13,326	10,826	14,534	9,888	7,940	4,967	25,910	42,268	5,378	6,396

TRUSTEES AND OFFICERS OF THE FUND

The section entitled “Trustees of the Fund” contained on pages 4-7 of the Fund’s Management Information Circular dated March 27, 2009 is incorporated herein by reference.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Fraser Papers previously held 3,613,780 Class B LP Units, which were exchangeable for Units of the Fund on a one for one basis, subject to customary anti-dilution adjustments. Fraser Papers exchanged all of these shares and sold 1,013,780 to two investment dealers and the remaining 2,600,000 to Brookfield on September 26, 2007.

As part of the transactions related to the initial public offering of the Fund, the Operating LP acquired New Brunswick timberlands and the ancillary assets from Fraser Papers in consideration for (i) \$108,413,428 million and (ii) 3,613,780 Class B Units of the Operating LP. For more information on the initial public offering, please see the section above entitled “Development of the Business”.

Fraser Papers is a subsidiary of Brookfield, of which Brookfield owns 70.5% and is also a major customer of the Fund. Approximately 29% of the total sales of the Fund for the year ended December 31, 2008 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers. These sales are in relation to a Fibre Supply Agreement between the Operating LP and Fraser Papers dated January 31, 2006, in which the Operating LP agreed to sell forest products from its NB Timberlands. The agreement has a term of 20 years and governs volumes and specifications over that period. For greater description of this agreement, please see the section above entitled “Principal Agreements”.

On February 2, 2009, Brookfield converted the 4,507,030 Class B Interests it held indirectly in KFM LLC into 4,507,030 Units. These Units are held by Brascan US Holdings Inc., a wholly owned subsidiary of Brookfield. Subsequent to this conversion, the Fund has 16,571,453 Units issued and outstanding, of which 7,513,262 or 45.3% are held by Brookfield and its affiliates.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Fund is CIBC Mellon Trust Company, P.O. Box 7010, Adelaide Street Postal Station, Toronto, Ontario, M5C 2W9.

MATERIAL CONTRACTS

The following is a list of material contracts to which the Fund or the LP is a party, or which, by their operation, is material to the Fund, particulars of which are disclosed above:

- (i) the credit agreement creating the Credit Facilities, described under “Debt Financing”;
- (ii) the Management Agreement, described under “Management of the Fund and Partnership — The Manager”;
- (iii) the Crown Lands Services Agreement, described under “Principal Agreements — Crown Lands Services Agreement”;
- (iv) the Fibre Supply Agreement described, under “Principal Agreements — Fibre Supply Agreement”;
- (v) the KPC LLC Fibre Supply Agreement described, under “Principal Agreements — Katahdin Paper Company Fibre Supply Agreement”;
- (vi) the KFM Credit Facility, described under “Debt Financing”; and
- (ix) the Exclusivity Agreement, described under “Principal Agreements — Exclusivity Agreement”;

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis contained in the Fund's 2008 Annual Report is incorporated herein by reference.

LEGAL PROCEEDINGS

Management is not aware of any material litigation outstanding, threatened or pending as of the date hereof by or against the Fund, the Trust, the LP or KFM LLC.

AUDIT COMMITTEE INFORMATION

The following information is provided in accordance with Form 52-110 F1 under Multilateral Instrument 52-110 - Audit Committees ("M152-110").

Audit Committee Charter

The Audit Committee Terms of Reference are attached as Schedule A to this Annual Information Form.

Composition of the Audit Committee

In fiscal year 2008, the Audit Committee was composed of: David M. Mann (Chairperson); J.W. Bud Bird; and Louis J. Maroun. Each member of the committee is considered "independent" and "financially literate" as such terms are defined in MI 52-110.

Relevant Education and Experience

Each member of the Audit Committee is financially literate, i.e., has the ability to read and understand financial statements. Collectively, the Audit Committee has the education and experience to fulfill the responsibilities outlined in the Audit Committee Terms of Reference. The education and past experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member can be found in the Fund Management Information Circular Dated March 27, 2009.

Pre-Approval Policies and Procedures

The Audit Committee of the Fund's board of trustees has adopted a policy regarding the provision of services by its external auditors, currently Ernst & Young LLP. This policy requires audit committee pre-approval of all permitted audit, audit-related and non-audit services. It also specifies a number of services that may not be provided by the Fund's external auditors, including all services prohibited by law from being provided by the external auditors.

Under the policy, all permitted services to be provided by the external auditors must be pre-approved by the Audit Committee or a designated member of the Audit Committee. Any pre-approval granted by a designated member must be reported to the Audit Committee at its next scheduled meeting. The pre-approval of services may be given at any time up to a year before commencement of the specified service.

Subject to the above mentioned policy, the Audit Committee may establish fee thresholds for a group of pre-approved services, provided that such fees will, when combined with all such fees that have not been specifically approved by the audit committee, aggregate less than 25% of the anticipated audit fees for the registrant and its subsidiaries for the same year. In such cases, the description of services must be sufficiently detailed as to the particular services to be provided to ensure that (i) the Audit Committee knows precisely what services it is being asked to pre-approve and (ii) the Audit Committee's responsibilities are not delegated to management. All such

services will be ratified at the next scheduled meeting of the Audit Committee, and upon such ratification will no longer be included in determining the aggregate fees covered by this limited approval.

External Auditor Service Fees (by Category)

A summary of the fees for the years ended 2008 and 2007 is included below:

	2008
	Actual Fees
Audit Fees	\$250,000
Audit-Related Fees ⁽¹⁾	75,000
Tax Fees ⁽²⁾	25,500
All Other Fees ⁽³⁾	<u>0</u>
Total Fees	<u>\$ 351,500</u>

	2007
	Actual Fees
Audit Fees	\$175,000
Audit-Related Fees ⁽¹⁾	155,000
Tax Fees ⁽²⁾	0
All Other Fees ⁽³⁾	<u>0</u>
Total Fees	<u>\$ 330,000</u>

- (1) Fees billed for assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the issuer's financial statements and are not reported under "Audit Fees"
- (2) Fees billed for professional services rendered by the external auditor for tax compliance, tax advice, and tax planning.
- (3) Fees billed for products and services provided by the external auditor, other than the services reported under "Audit Fees", "Audit-Related Fees" or "Tax Fees"

ADDITIONAL INFORMATION

Additional information, including remuneration and indebtedness of the Trustees of the Fund and the Trust, and the directors of the General Partner and KFM LLC, principal holders of the Fund's, the Trust's, the LP's, the Operating LP's, and KFM LLC's securities, interest of insiders in material transactions, is contained in the Fund's information circular for the annual meeting of Unitholders scheduled for May 7, 2009, at which the Fund Trustees are to be elected, and additional financial information is provided in the Fund's comparative financial statements for the year ended December 31, 2008, and its Management Discussion and Analysis, which information is incorporated herein by reference.

Additional information relating to the Fund may be found on SEDAR at www.sedar.com.

GLOSSARY OF TERMS

“**Acadian**” means the Fund and all of its subsidiaries;

“**Acadian Timberlands**” means the NB Timberlands and Maine Timberlands;

“**access roads**” means roads leading from a main road to a harvest block or roads within a block;

“**ancillary assets**” means certain assets that were held and used by Fraser Papers in connection with Fraser Papers’ Timberlands Business, including certain motor vehicles, buildings and a tree nursery;

“**Asset Value of the Fund**” has the meaning set out under the “The Manager”;

“**Book-Entry System**” means a book-based system administered by CDS;

“**Brookfield**” means Brookfield Asset Management Inc.;

“**CanCo**” means AT Timberlands (N.S.) ULC, a Nova Scotia unlimited liability company;

“**CanCo Note**” means an interest bearing note for approximately US\$3.2 million with a maturity date of ten years from the date of issuance owed by CanCo to the LP;

“**CBCA**” means the *Canada Business Corporations Act*;

“**CDS**” means the CDS Clearing and Depository Services Inc.;

“**CLFA**” means the *1982 Crown Lands and Forests Act* (New Brunswick);

“**Class A LP Units**” means the Class A limited partnership units of the LP;

“**Class B LP Units**” means the Class B limited partnership units of the LP;

“**Class A Units**” means the Class A limited partnership units of the Operating LP;

“**Class B Units**” means the Class B limited partnership units of the Operating LP;

“**Credit Facilities**” means the credit facilities, which are comprised of a revolving credit facility and a term credit facility in the aggregate amount of up to \$47 million entered into on January 31, 2006;

“**Crown Lands**” means the approximately 1.3 million acres of Crown Lands located in the province of New Brunswick subject to a licensing arrangement between Fraser Papers and the Government of the Province of New Brunswick;

“**Crown lands**” means lands owned in Canada by a government in Canada;

“**Crown Lands Services Agreement**” means the services agreement entered into between the Operating LP and Fraser Papers on January 31, 2006 in respect of the Crown Lands;

“**Crown Timber Licenses**” means the licences issued by the Government of the Province of New Brunswick pursuant to which Fraser Papers manages the Crown Lands;

“**Exclusivity Agreement**” means the exclusivity agreement between Brookfield and the Operating LP described under “Principal Agreements — Exclusivity Agreement”;

“**GIS**” means the computerized geographic information system that management uses to keep a detailed classification of all forest stands;

“**Fibre Supply Agreement**” means the fibre supply agreement entered into between the Operating LP and Fraser Papers on January 31, 2006;

“**Fibre Supply Agreements**” means, collectively, the Fibre Supply Agreement, the KPC LLC Fibre Supply Agreement and the Fraser Papers/KFM LLC Fibre Supply Agreement;

“**Forest Nursery**” means the forest nursery in Second Falls, New Brunswick;

“**Fraser Papers**” means Fraser Papers Inc.;

“**Fraser Papers/KFM LLC Fibre Supply Agreement**” means the fibre supply agreement entered into between Fraser Papers and KFM LLC;

“**Fraser Papers’ Timberlands Business**” means the timberlands operations conducted by Fraser Papers in respect of the NB Timberlands, the Forest Nursery and its management of the Crown Lands;

“**freehold**” means the private ownership of land, also commonly referred to as ownership in fee simple;

“**Fund**” means Acadian Timber Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario;

“**Fund Declaration of Trust**” means the declaration of trust dated December 15, 2005, pursuant to which the Fund is established, as it may be amended, supplemented or restated from time to time;

“**GP**” means Acadian Timber GP Inc., a corporation incorporated under the laws of the Province of Ontario;

“**Indenture**” means the indenture among Fraser Papers, as issuer, FPS Canada Inc., Fraser Papers Holdings Inc., Fraser Timber Limited, Fraser Papers Limited, Katahdin Services Company LLC, and Fraser N.H. LLC, as guarantors, The Bank of New York, as U.S. trustee, and BNY Trust Company of Canada, as Canadian trustee;

“**KFM LLC**” means Katahdin Forest Management LLC;

“**KFM Credit Agreement**” means KFM LLC’s senior term loan facility in an aggregate amount of \$31.5 million dated February 27, 2004;

“**KPC LLC**” means Katahdin Paper Company, LLC;

“**KPC LLC Fibre Supply Agreement**” means the fibre supply agreement entered into between KPC LLC and KFM LLC;

“**LP**” means Acadian Timber Limited Partnership, a limited partnership established under the laws of the Province of Manitoba pursuant to the LP Partnership Agreement;

“**LP Units**” means, collectively, the Class A LP Units and the Class B LP Units;

“**LRSY**” means long run sustainable yield;

“**Maine Timberlands**” means the approximately 311,000 acres of the timberlands located in Maine, U.S.A. owned by KFM LLC;

“**main roads**” means roads designed to provide access for forest management activities and recreational use;

“**Management Agreement**” means the management agreement dated October 3, 2005 between KFM LLC, Fraser Papers and the Manager and to which the Operating LP joined January 31, 2006;

“**Manager**” means Brookfield Timberlands Management LP, a limited partnership formed under the laws of Manitoba;

“**NB Timberlands**” means the approximately 765,000 acres of timberlands located in the province of New Brunswick currently owned by the Operating LP;

“**Northeastern U.S.**” means the following nine states: Connecticut, Maine, Massachusetts, New Jersey, New Hampshire, New York, Pennsylvania, Rhode Island and Vermont;

“**Operating LP**” means AT Limited Partnership, a limited partnership established under the laws of the Province of Manitoba pursuant to the Operating LP Partnership Agreement;

“**Operating LP Units**” means, collectively, the Class A Units and the Class B Units;

“**Ordinary Resolution**” means a resolution passed by a majority of the votes cast at a meeting of the Voting Unitholders;

“**Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act;

“**Redemption Date**” shall have the meaning ascribed thereto under “Description of the Fund — Redemption at the Option of Unitholders”;

“**Redemption Price**” shall have the meaning ascribed thereto under “Description of the Fund — Redemption at the Option of Unitholders”;

“**Related Mills**” means Fraser Papers’ owned or managed lumber and pulp and paper mills;

“**Revolving Facility**” means senior revolving credit facility in an aggregate principal amount of up to \$5 million;

“**Series 1 Trust Notes**” means the series 1 notes of the Trust issued under the Trust Note Indenture;

“**Series 2 Trust Notes**” means the series 2 notes of the Trust issued under the Trust Note Indenture;

“**Series 3 Trust Notes**” means the series 3 notes of the Trust issued under the Trust Note Indenture;

“**Special Resolution**” means a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Units who voted in respect of that resolution at a meeting of Voting Unitholders at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Units and Special Voting Units entitled to vote on such resolution;

“**Special Voting Unitholders**” means holders of Special Voting Units;

“**Special Voting Units**” means the units of the Fund issued to represent voting rights in the Fund that accompany the Class B LP Units of the LP;

“**Support and Registration Rights Agreement**” means the support and registration rights agreement entered into between the Fund, the Trust, the LP, the GP and KFM LLC, among others, on January 31, 2006;

“**Tax Act**” means the Income *Tax Act* (Canada) and the regulations thereunder, as amended;

“**Term Facility**” means the senior term loan facility in an aggregate amount of up to \$42 million;

“**Trust**” means AT Trust;

“**Trust Note Indenture**” means the note indenture entered into between the Trust and CIBC Mellon Trust Company dated January 31, 2006 governing the Trust Notes;

“**Trust Notes**” means, collectively, the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes of the Trust;

“**Trust Units**” means units of the Trust;

“**Trust’s Trustees**” means the trustees of the Trust;

“**Trustee**” or “**Trustees**” means the trustees of the Fund or any one of them;

“**TSX**” means the Toronto Stock Exchange;

“**Unitholders**” means the holders of Units;

“**Units**” means units of the Fund other than Special Voting Units;

“**USCo**” means Acadian Timber (U.S.), Inc., a Delaware corporation;

“**USCo Note**” means an interest-bearing note for approximately US\$3.2 million with a maturity date of ten years from the date of issuance owed by USCo to CanCo;

“**Voting Unitholders**” means Unitholders and Special Voting Unitholders; and

“**Voting Units**” means Units and Special Voting Units.

SCHEDULE A
AUDIT COMMITTEE
TERMS OF REFERENCE

A committee of the board of trustees of the Fund to be known as the Audit Committee (the “Committee”) shall have the following terms of reference set out below.

The following terms of reference are intended to comply with National Instrument 58-201 - Corporate Governance Guidelines and Multilateral Instrument 52-110 Audit Committees.

1. MEMBERSHIP AND CHAIRPERSON

- (a) Following each annual meeting of unitholders, the board of trustees of the Fund (the “board”) shall appoint from its number three or more trustees (the “members”) to serve on the Committee until the close of the next annual meeting of unitholders of the Fund or until the member ceases to be a trustee, resigns or is replaced, whichever first occurs.
- (b) All the members of the Committee shall be trustees who are resident Canadians and “independent” for the purposes of Multilateral Instrument 52-110.
- (c) No trustee who receives any compensation from the Fund, its affiliates or the Manager, other than trustee’s fees, shall be eligible for membership on the Audit Committee. Disallowed compensation for a Committee member includes fees paid directly or indirectly for services as a consultant or a legal or financial advisor, regardless of the amount. Disallowed compensation also includes compensation paid to such trustee’s firm for such consulting or advisory services, even if the trustee is not the actual service provider.
- (d) Each member of the Committee shall, in the judgment of the board, be financially literate for the purposes of Multilateral Instrument 52-110. In addition, at least one member of the Committee shall, in the judgment of the board, have accounting or related financial management expertise.
- (e) The board shall appoint one of the trustees as the chairperson of the Committee. If the chairperson is absent from a meeting, the members shall select a chairperson from those in attendance to act as chairperson of the meeting. The chairperson’s responsibilities have been determined and approved by the board of trustees and have been set out in a written position description.

2. RESPONSIBILITIES

- (a) The Committee shall generally assume responsibility for oversight and supervision of the financial and accounting practices and procedures of the Fund, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements of the Fund; developing the approach of the Fund to the following matters; publicly disclosed financial information; risk management and insurance; and external and internal audit; and shall review and make recommendations to the board on all such matters.
- (b) The Committee shall review and, where appropriate, recommend for approval by or report to the board on the following:
 - (i) interim financial statements;

- (ii) audited annual financial statements, in conjunction with the report of the external auditor;
 - (iii) public disclosure documents containing audited or unaudited financial information, including management's discussion and analysis of financial condition and results of operations;
 - (iv) the effectiveness of management's policies and practices concerning financial reporting and any proposed changes in major accounting policies; and
 - (v) any report, which accompanies published financial statements (to the extent such a report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.
- (c) The Audit Committee shall have the following responsibilities in relations with the external and internal auditors of the Fund:
- (i) to have the sole responsibility to retain or terminate the external auditor, subject to ratification by the unitholders, and to approve the fees and expenses of such auditor;
 - (ii) to receive, at least annually, a report from the external auditor on their independence and to review any relationship between the auditor and the Fund and the Manager or any other relationship that may adversely affect the independence of the auditor and, based on such review, to assess the independence of the auditor;
 - (iii) to determine, through discussion with the external and internal auditors, that no restrictions were placed by the Manager on the scope of their examination or on its implementation;
 - (iv) to approve the Fund's policy on non-audit related work by its external auditor, and pre-approve or reject any proposed non-audit related work to be conducted by the external auditor for the Fund;
 - (v) to meet with the external and internal auditors in private session, at least annually, to review any matters arising from the annual external audit and internal audits conducted throughout the year; and
 - (vi) to review and approve the annual Internal Audit Plan and Budget.
- (d) In addition, the Committee shall:
- (i) review such litigation, claims, tax assessments, transactions or other contingencies as the external auditor or any officer of the Fund may bring to its attention and which may have a material impact on financial results or which may otherwise adversely affect the financial well-being of the Fund; and
 - (ii) consider other matters of a financial nature as directed by the board.

3. MEETINGS

- (a) Meetings of the Committee may be called by the chairperson of the Committee, the Chair of the board of the Fund or the Manager. Meetings will normally be held each quarter and shall be called not less than once annually.
- (b) The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than a majority of the members of the Committee from time to time. Subject to the foregoing, and the Declaration of Trust under which the Fund was created, and

unless otherwise determined by the board, the Committee shall have the power to fix its quorum and to regulate its procedure.

- (c) Notice of each meeting shall be given to each member, and to the Chair and the Manager. Notice of meeting may be given verbally or by letter, email, telephone facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.
- (d) Matters decided by the Committee shall be decided by majority vote.
- (e) The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee.
- (f) The Committee shall report to the board on its proceedings, review undertaken and any associated recommendations.