



ACADIANTIMBER

**ACADIAN TIMBER CORP.**

**Annual Information Form**

March 26, 2010

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## CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

This Annual Information Form (“AIF”) contains forward-looking information and other forward-looking statements within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Acadian Timber Corp. and its subsidiaries (collectively, “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 AIF, such statements may contain words as “may,” “will,” “intend,” “should,” “expect,” “believe,” “outlook,” “predict,” “remain,” “anticipate,” “estimate,” “potential,” “continue,” “plan,” “could,” “might,” “project,” “targeting” or the negative of these terms or other similar terminology. Forward-looking information in this AIF includes, without limitation, statements made in sections entitled “Development of the Business – The Conversion of the Fund to the Corporation”, “Description of the Business”, “Risk Factors”, “Capital Structure – Dividend Policy”, and “Cash Distributions and Dividends – Dividend Policy”, and other statements regarding management’s beliefs, intentions, results, performance, goals, achievements, future events, plans and objectives, business strategy, access to capital, liquidity and trading volumes, dividends, taxes, capital expenditures, projected costs and anticipated benefits of the conversion from an income trust to a corporation, and similar statements concerning anticipated future events, results, achievements, circumstances, performance or expectations that are not historical facts. These statements reflect management’s current expectations regarding future events and operating performance, are based on information currently available to management and speak only as of the date of this AIF. All forward-looking statements in this AIF are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon 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; changes in Canadian income tax law; economic situation of key customers; failure to realize the anticipated benefits of the conversion from an income trust to a corporation; the risks associated with the availability and amount of the tax basis in connection with the conversion from an income trust to a corporation; and other risks and factors discussed in the section entitled “Risk Factors” beginning on page 21. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: anticipated financial performance; business prospects; strategies; regulatory developments; exchange rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the ability to obtain financing on acceptable terms, which are subject to change based on commodity prices; market conditions for timber and wood products; the economic situation of key customers; and the utilization of the tax basis resulting from the conversion from an income trust to a corporation. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this AIF are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward-looking statements. Certain statements in this AIF may also be considered “financial outlook” for the purposes of applicable Canadian securities laws, and such financial outlook may not be appropriate for purposes other than this AIF.

The forward-looking statements contained in this AIF are made as of the date of this AIF and should not be relied upon as representing Acadian’s views as of any date subsequent to the date of this AIF. Acadian Timber Corp. assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as required by applicable law.

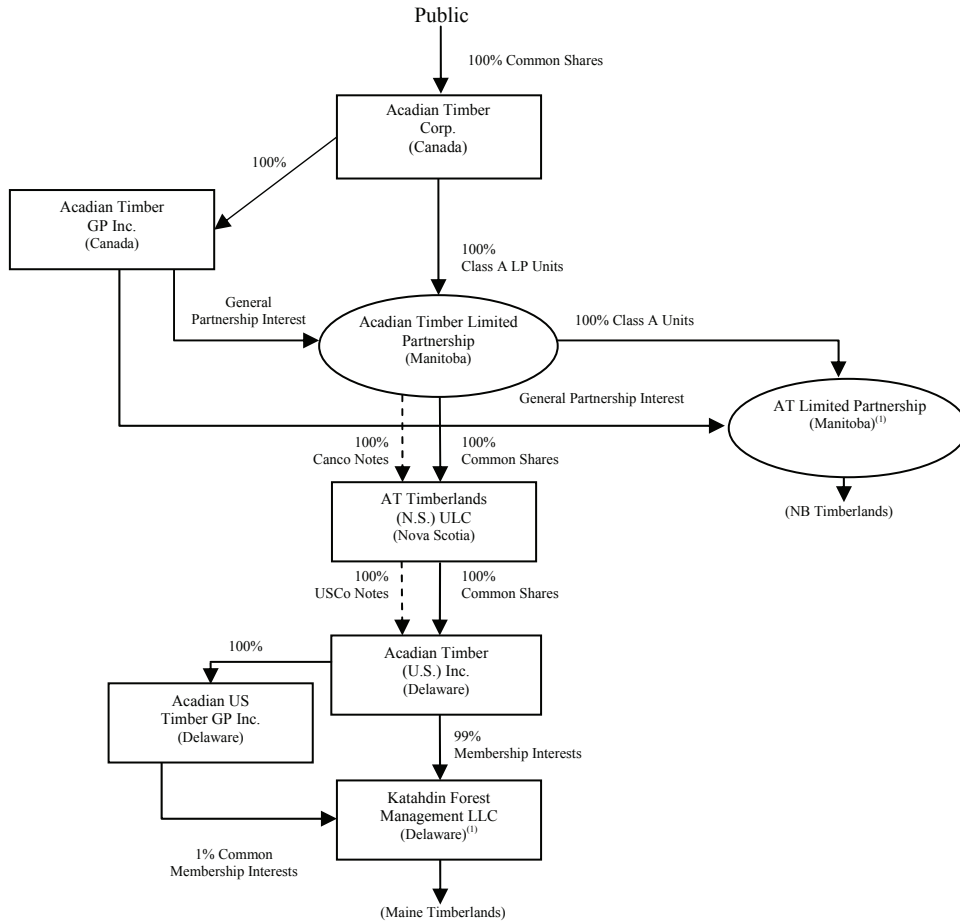
## THE CORPORATION

Acadian Timber Corp. (the “**Corporation**”) is governed by the *Canada Business Corporation Act* (the “**CBCA**”) pursuant to articles of arrangement dated January 1, 2010 (the “**Articles**”). The Corporation is a reporting issuer and its common shares are publicly traded on the TSX under the stock symbol “ADN”. The principal and head office of the Corporation is located at 550 Burrard Street, Suite 458, Bentall V, Vancouver, British Columbia V6C 2R5.

The predecessor to the Corporation, Acadian Timber Income Fund (the “**Fund**”), was 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, as amended and restated on January 31, 2006, and as amended on January 1, 2010. On January 1, 2010, the Fund completed a conversion into the Corporation pursuant to a plan of arrangement (the “**Arrangement**”) under the CBCA, involving, among others, the Fund and CellFor Inc. (“**CellFor**”). As a result of the completion of the Arrangement and related transactions, the Corporation now owns, directly and indirectly, subsidiaries which own and operate the businesses which were held and operated by the Fund and its subsidiaries prior to the closing of the Arrangement. Following completion of the Arrangement, on January 1, 2010, each of the Fund and AT Trust were wound up and dissolved. See “General Development of the Business – The Conversion of the Fund to the Corporation”.

The financial year end of the Corporation is December 31 (as was the case with the Fund).

The following chart illustrates the structure of Acadian (including the jurisdiction of establishment/incorporation of the various entities) as of March 26, 2010:



Note:  
 (1) The NB Timberlands and the Maine Timberlands are managed by Brookfield LP.

## DEVELOPMENT OF THE BUSINESS

### Origins and Development of the Business

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

On January 31, 2006 the Corporation's predecessor, the Fund, 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 in exchange for \$108 million and 3,613,780 Class B Units of the Operating LP; and
- (b) all the common membership interests of 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 LP and certain service and supply and agreements with Fraser Papers. See "Arrangements with Brookfield LP" and "Principal Agreements".

On January 31, 2006, the Partnership entered into the Credit Facilities, which include the Revolving Facility and the Term Facility. See "Debt Financing".

On September 26, 2007, Fraser Papers announced that it had converted into Units (on a one for one basis) and sold its entire holding of Class B LP Units. As part of this transaction, 2,600,000 of the 3,613,780 Units sold by Fraser Papers were purchased by Brookfield. Effective October 1, 2007, Fraser Papers no longer had an ownership interest in the Fund.

On February 3, 2009, Brookfield, together with its affiliates, converted the 4,507,030 Class B Interests it held indirectly in KFM LLC into 4,507,030 Units. These Units were held by Brascan US Holdings Inc., a wholly owned subsidiary of Brookfield. Subsequent to this conversion, the Fund had 16,571,453 Units issued and outstanding, of which 7,513,262 or 45.3% were held by Brookfield and its affiliates.

### The Conversion of the Fund to the Corporation

Subsequent to the Minister of Finance's October 31, 2006 announcement of the federal government's plan to change the tax treatment of income trusts (the "SIFT Rules"), which will result in a tax being applied at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to unitholders, the board of Trustees and management of the Fund began assessing the Fund's available options to ensure an efficient capital structure and the Fund's continued ability to meet its strategic objectives and to enhance value for its unitholders. As a result of this ongoing assessment, the board of Trustees and management started examining particular options for conversion into a corporate structure, which would minimize the negative impact of the SIFT Rules and enhance value for unitholders of the Fund.

In July 2009, the Fund identified a transaction with CellFor as an opportunity to achieve its strategic objectives. The Fund and CellFor entered into a letter of intent on August 19, 2009, which was supplemented on September 19, 2009. On November 12, 2009, after several board meetings duly called to consider the financial aspects and other considerations relating to the proposed Arrangement, the board of Trustees determined that the Arrangement was fair and reasonable to the Fund's unitholders and would be in the best interests of the Fund and its unitholders, and, on that basis, unanimously approved the entering into of the Arrangement Agreement and unanimously recommended that the Fund's unitholders vote in favour of the Arrangement at a special meeting of unitholders to be called for that purpose. On December 22, 2009, the Arrangement was duly approved at a special meeting of

unitholders of the Fund, and on December 30, 2009, the Ontario Superior Court (Commercial List) granted the final order approving the Arrangement. The Arrangement was completed on January 1, 2010.

In accordance with the terms of the Arrangement, CellFor transferred all of its assets (other than certain retained assets specified in the Arrangement Agreement) to New CellFor and New CellFor assumed all of CellFor's liabilities (other than certain retained liabilities specified in the Arrangement Agreement). New CellFor has continued CellFor's existing business and is now owned by the former security holders of CellFor. In addition, pursuant to the Arrangement, the security holders of CellFor, indirectly through New CellFor, retained an equity interest in the Corporation of 159,763 Common Shares in the aggregate, which represents just under 1% of the number of Common Shares that are currently issued and outstanding as at March 26, 2010.

The assets of CellFor retained by the Corporation pursuant to the Arrangement include CellFor's proprietary germplasm of black and red spruce currently cryo-preserved in its tissue banks and a license in respect of the associated intellectual property related to spruce. CellFor has completed extensive work to optimize somatic embryogenesis in conifers. CellFor's initial work on the conifer family *Picea*, which included both black and red spruce, has led to the sale of millions of varieties of elite conifer seedlings in the marketplace. Spruce-fir forests make up approximately 50% of the Corporation's timberlands. The only species grown in the Corporation's nursery or planted on the Corporation's timberlands is black spruce. A license to use the existing germplasm and the intellectual property associated with somatic embryogenesis represents a valuable asset to the Corporation which is expected to accelerate the Corporation's breeding and planting activities, and improve the productivity of its spruce plantations over time.

Complete details of the terms of the Arrangement, including a copy of the Plan of Arrangement, are set out in the Fund's information circular dated November 23, 2009 which is filed under the Corporation's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

#### **Dissolution of the Fund and AT Trust**

Following the closing of the Arrangement, on January 1, 2010, each of the Fund and AT Trust, a subsidiary of the Fund, were dissolved in accordance with their respective declarations of trust in order to further simplify the corporate structure of the Corporation. See "The Corporation" for the current corporate structure chart of Acadian.

## **DESCRIPTION OF THE BUSINESS**

### **Overview of Acadian's Business**

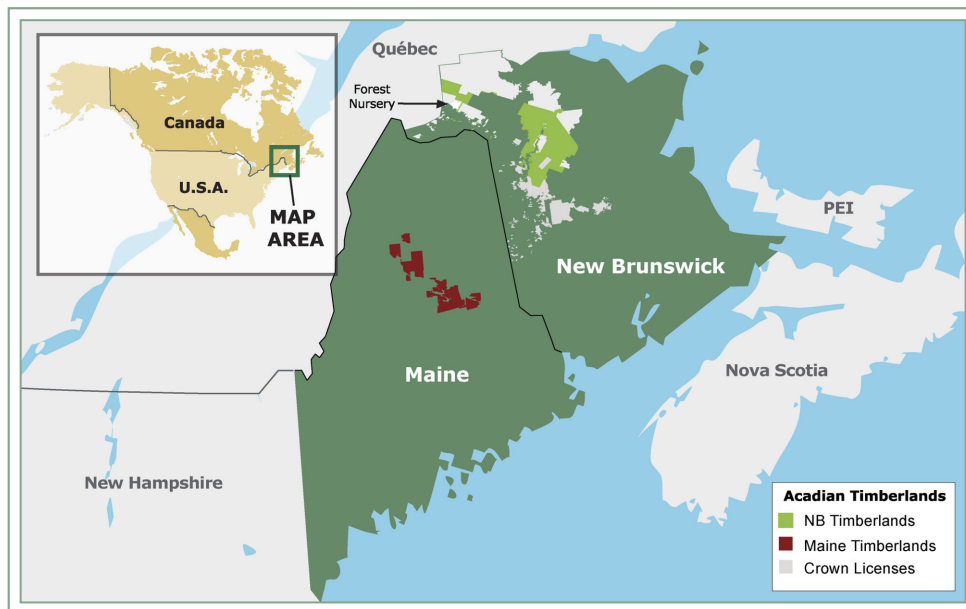
Acadian is a leading supplier of primary forest products to the forest products industry in Eastern Canada and the Northeastern U.S. Acadian owns and manages the NB Timberlands and the Maine Timberlands and provides services in respect of the NB Crown Lands. These services are provided pursuant to the 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 27.7 million m<sup>3</sup> with an annual sustainable harvest volume of 928,000 m<sup>3</sup>.

	<u>NB Timberlands</u>	<u>Maine Timberlands</u>	<u>Combined</u>
Land Area.....	765,000 acres	310,000 acres <sup>(4)</sup>	1,075,000 acres
Productive Forested Area <sup>(1)</sup> .....	92%	92%	92%
Merchantable Forest Inventory <sup>(2)</sup> .....	23.7 million m <sup>3</sup>	12.2 million m <sup>3</sup>	35.9 million m <sup>3</sup>
Species Mix of Merchantable Forest Inventory .....	60% softwood	69% softwood	58% softwood
	40% hardwood	31% hardwood	42% hardwood
Long Run Sustainable Yield (LRSY).....	651,000 m <sup>3</sup> /year	277,000 m <sup>3</sup> /year	928,000 m <sup>3</sup> /year
Silviculture Treatment Area <sup>(3)</sup> .....	216,600 acres	49,900 acres	266,500 acres
Silviculture Treatment Area (as a percentage of productive forested area).....	31%	18%	27%



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Notes:

- (1) Productive Forested Area means land excluding roads, wetlands, water and other non-forested areas.
- (2) Merchantable Forest Inventory includes trees with a diameter greater than 10 cm (4 inches) at a height of 1.4 m (4.5 feet) from the ground, excluding levels and tops, and cull trees.
- (3) Number of acres treated between 1978 and 2009. 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 the NB Crown Lands. Freehold timberlands provide superior market access, higher operating flexibility and stronger cash flows than the NB 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 23.7 million m<sup>3</sup> merchantable timber with approximately 60% of the volume in softwood and 40% in 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 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 m<sup>3</sup> comprised of 60% softwood and 40% hardwood. 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 (thousands m<sup>3</sup>)<sup>(1)(2)</sup></u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlogs .....	11,000	2,700	13,700
Pulpwood .....	<u>3,200</u>	<u>6,800</u>	<u>10,000</u>
Total .....	14,200	9,500	23,700
LRSY(3) m <sup>3</sup> .....	390,000	261,000	651,000

Notes:

- (1) Management’s current estimates of inventory are based on a James W. Sewall Company Forest Valuation Inventory Report dated as of August 2009.
- (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.
- (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 44% 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 130,000 acres of softwood plantations and more than 40,000 acres of stands that have been pre-commercially thinned (a silviculture activity) between 1978 and 2009. 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 the bulk of the merchantable inventory. Stands in the mature and over-mature classes 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 310,000 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 12.2 million m<sup>3</sup>, of which approximately 69% is softwood. Spruce and Fir make up approximately 34% 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 breast height (1.4 m or 4.5 feet). These trees form an important component of the future asset base, but are considered non-merchantable today. The LRSY of approximately 277,000 m<sup>3</sup> 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 m<sup>3</sup>)(1)(2)</u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlog.....	4,900	400	5,300
Pulpwood .....	<u>3,500</u>	<u>3,400</u>	<u>6,900</u>
Total .....	8,400	3,800	12,200
LRSY(3) m <sup>3</sup> .....	217,000	60,000	277,000

Notes:

- (1) Management's current inventory estimate is based on internal measurements and analysis, which were also confirmed by a James W. Sewall Company report in 2009.
- (2) Merchantable Forest Inventory includes trees with a diameter greater than 10 cm (4 inches) at a height of 1.4 m (4.5 feet) from the ground, excluding levels and tops, and cull trees.
- (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 most of the 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 License 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 266,500 acres of land have been treated between 1978 and 2009, 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 Brookfield LP, have a proven track record of completing strategic acquisitions of timberlands assets. Individuals acting on behalf of Brookfield LP 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, the acquisition of 655,000 acres in the Pacific Northwest in April 2007 and the acquisition of 200,000 acres in Brazil in 2009.

### ***Strong Sponsorship***

Brookfield holds a significant indirect investment in Acadian thereby aligning its objectives to those of the Corporation. Fraser Papers, 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 Brookfield LP, 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\$90 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 Shareholder value, 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 23% and 29% of total sales from the Acadian Timberlands for the years ended December 31, 2009 and December 31, 2008, respectively. In the year ended December 31, 2009, of the remaining 77% of Acadian Timberlands' total sales, the single largest customer represented 7% of total sales and the top five customers combined represented 28% of total sales. In 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. Approximately 23% of Acadian's total sales for the year ended December 31, 2009, and 29% of Acadian's total sales for the year ended December 31, 2008, were derived from sales to Fraser Papers. Another 3% (in 2009) and 3% (in 2008) of those sales were derived from sales to Brookfield.

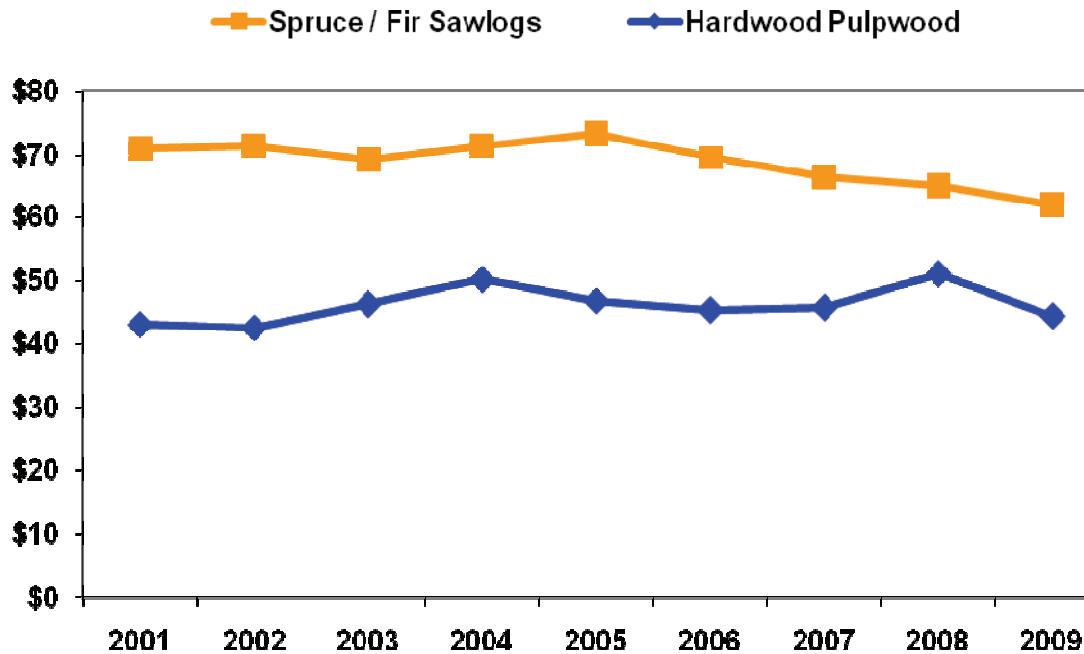
### ***Pricing***

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<sup>(1)(2)</sup>



Notes:

- (1) Pricing for Maine has been converted using a conversion rate based on the annual average exchange rates 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* 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. The current 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 2012-2017 period, consistent with Government intentions as stated in a January 2009 Report from the New Brunswick Ministry of National Resources (*source: A balanced management approach for New Brunswick’s Crown Forest January, 2009*). However, hardwood AACs across the Province are expected to drop by 10% in the next planning cycle. 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 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 License #9 (this is the combination of former licenses #9 and #10) (the “**Crown Timber License**”), which is located in the northern region of New Brunswick in the counties of Madawaska, Restigouche, Victoria, Carleton, York and Northumberland.

#### **Crown Timber License**

<u>Crown License</u>	<u>Total Area</u> (Acres)	<u>Allowable Annual Cut</u> <u>2007-2012</u> (m <sup>3</sup> )	<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 the NB Crown Lands subject to the Crown Timber License in the Province of New Brunswick at the direction of Fraser Papers and in a manner consistent with the way that the Crown Timber License 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 License held by Fraser Papers, whereby Acadian will provide various administrative and operating services to assist Fraser Papers in managing the Crown Timber License. Under the terms of this agreement, Fraser Papers is responsible for collecting and paying to the Government a royalty fee (a charge for wood in \$/m<sup>3</sup> that varies based on species and product type). A levy fee (calculated in \$/m<sup>3</sup> for silviculture spending that differs for softwood and hardwood for remedial silviculture spending) 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 NB 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 NB 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 \$/m<sup>3</sup> paid to the Government which varies based on species and product type. A levy fee (fee in \$/m<sup>3</sup> 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 \$/m<sup>3</sup>) 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 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<sup>3</sup> and provide greater operational flexibility, the NB 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 fully 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 has also recently acquired a license to certain intellectual property related to CellFor's proprietary germplasm of black and red spruce pursuant to the CellFor License Agreement, as discussed under "Principal Agreements – CellFor License Agreement". The conversion of the Fund to the Corporation has created a unique opportunity to use the black and red spruce germplasm and related technology developed by CellFor to determine whether there are economic opportunities to improve the long-term productivity of Acadian's lands. The Corporation will evaluate the opportunity to use such methods of propagation in the nursery and whether the sources of seed can develop rapidly in the eastern Canadian climatic conditions.

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 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 36 to 51 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.

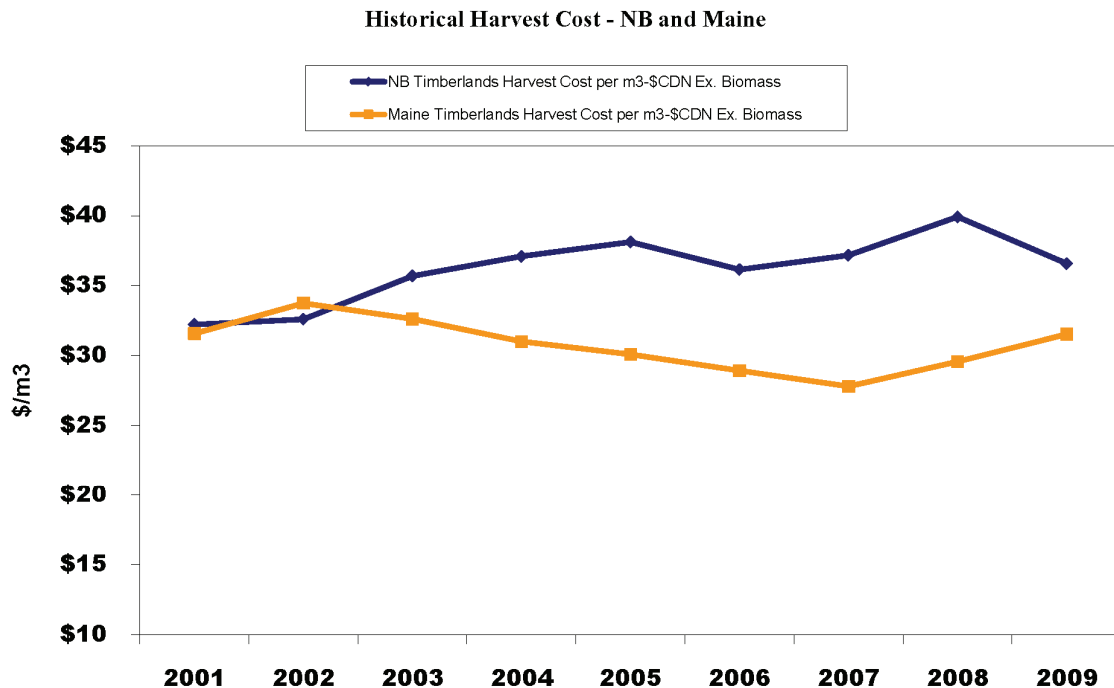
The harvesting equipment used by Acadian's contractors includes various large hydraulic-powered loaders, harvesters, skidders/forwarders and logging trucks. After a plot of land is identified for harvesting, roads are constructed in order to provide access to the site. Once road access is available, 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 chipping and 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 nine year (2001-2009) 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.



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 136 employees as at December 31, 2009 of which 128 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. Negotiations for new labour agreements will start in the second quarter in 2010.

## ***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, 2009 were denominated in U.S. dollars. Approximately 75% of the total sales for the year ended December 31, 2009 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 35.9 million m<sup>3</sup>) based upon independently and internally measured ground sample plots and forest cover type information. The NB Timberlands forest inventory volume was updated through an inventory conducted by James W. Sewall Company in 2009. The inventory of the Maine Timberlands was determined based on internal measurements, which were also confirmed by James W. Sewall Company in 2009. 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 m<sup>3</sup>/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 m<sup>3</sup>/year within 10 years. The harvest levels for softwood will continue to approximate its LRSY of 390,000 m<sup>3</sup>/year, while the hardwood harvest levels will continue to be higher than its LRSY of 261,000 m<sup>3</sup>/year until 2016. Harvesting of hardwood species on the NB Timberlands was minimal prior to the mid 1990’s resulting in the conversion of mixed softwood/hardwood stands to hardwood dominated stands. 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.

In 2010, management will be preparing a renewed forest management plan for the NB Timberlands. This plan will consider all new information available, including the James W. Sewall Company inventory of 2009 and all updated forest activity data.

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

**Harvest Levels and LRSY for NB Timberlands<sup>(1)(2)</sup>**

<u>Species</u>	<u>Actual Harvest (m<sup>3</sup>/year)</u>				<u>Projected Harvested Levels (m<sup>3</sup>/year)</u>			<u>LRSY</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	<u>(m<sup>3</sup>/year)</u>
Softwood	355,500	372,500	273,800	336,500	397,000	390,000	390,000	390,000
Hardwood	<u>493,600</u>	<u>443,400</u>	<u>389,600</u>	<u>444,000</u>	<u>390,000</u>	<u>330,000</u>	<u>261,000</u>	<u>261,000</u>
Totals	<u>849,100</u>	<u>815,900</u>	<u>663,400</u>	<u>780,500</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.

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<sup>(1)</sup>**

<u>Species Group</u>	<u>Actual Harvest (m<sup>3</sup>/year)</u>				<u>Projected Harvest to 2020</u>	<u>LRSY (m<sup>3</sup>/year)</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		
Softwood	238,700	243,900	234,400	196,000	217,000	217,000
Hardwood	<u>79,600</u>	<u>56,900</u>	<u>62,100</u>	<u>45,300</u>	<u>60,000</u>	<u>60,000</u>
Total	<u>318,300</u>	<u>300,800</u>	<u>296,500</u>	<u>241,300</u>	<u>277,000</u>	<u>277,000</u>

Note:

- (1) All harvest figures exclude biomass.

### ***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 2009**

<u>Silviculture Activity</u>	<u>NB Timberlands</u>	<u>Maine Timberlands</u>
	<u>(In acres, except percentages)</u>	
Planting .....	130,000	14,800
Pre-commercial thinning .....	40,400	4,300
Softwood release .....	<u>46,200</u>	<u>30,800</u>
Total silviculture treatment area .....	<u>216,600</u>	<u>49,900</u>
Total silviculture treatment area as a percentage of productive forested area .....	31%	18%

### ***Forest Certification***

Acadian's forest planning and operations for the NB Timberlands and Fraser Papers' management of the Crown Timber License have been third-party certified since 2000 by the Quality Management Institute/SAI Global under the ISO 14001 standard for environmental management systems and the American Forest and Papers Association Sustainable Forestry Initiative (SFI™). 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. In 2009, the NB Timberlands successfully completed a full recertification audit to the ISO 14001 standard and a surveillance audit of the SFI standard.

### ***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 forestry and has received third party forest certification to demonstrate the commitment to those principles.

### ***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 cash available for distribution from operations of Acadian, as well as on the ability of Acadian to pay dividends on its Common Shares. 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 23% of Acadian's total sales for the year ended December 31, 2009 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers (29% for the year ended December 31, 2008). 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 NB Crown Lands subject to these licenses. Such events could potentially eliminate the fees earned by Acadian in providing services relating to the NB 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 NB 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 the NB Crown Lands.

There is a risk that Acadian's overhead expenses incurred to provide services relating to the NB Crown Lands may not be fully recovered through the fees it is permitted to charge.

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

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

### ***Restrictions Imposed by Forestry and Environmental Regulations***

While a significant portion of Acadian's timberlands are comprised of freehold timberlands and as such are subject to less regulation than the NB 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 Corporation 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 from the Maine Timberlands and a portion of the sales from the NB Timberlands, a significant portion of gross revenues earned, are in U.S. dollars. All expenses incurred in respect of the Maine Timberlands 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.

### ***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.

### ***Cyclical***

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. In particular, negotiations for new labour agreements are set to commence in the second quarter of 2010. 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 NB 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 Corporation**

#### ***Dependence on Brookfield and Brookfield LP and Potential Conflicts of Interest***

Acadian is dependent on Brookfield and Brookfield LP in respect of certain strategic management functions relating to the ongoing operations of the Acadian Timberlands. Brookfield and Brookfield LP, their respective affiliates and agents, employees of Brookfield and Brookfield GP, the general partner of Brookfield LP (which has no employees), and other funds and vehicles managed by Brookfield or Brookfield LP or their respective affiliates are engaged or invested, 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.

#### ***Payment of Dividends***

As a corporation, the Corporation's dividend policy will be at the discretion of the Corporation's board of Directors. Future dividends, if any, will depend on the operations and assets of the Corporation and its subsidiaries, and will be subject to various factors, including, without limitation, the Corporation's financial performance, fluctuations in its working capital, the sustainability of its margins, its capital expenditure requirements, obligations under its credit facilities, provisions of applicable law and other factors that the board of directors may deem relevant from time to time. Accordingly, the payment of dividends by the Corporation and the level thereof will be uncertain.

#### ***Dividends Depend on Performance of Subsidiaries***

Although the Corporation intends to pay dividends on its Common Shares in accordance with a dividend policy to be adopted by its board of Directors, there can be no assurance regarding the amounts of income to be generated by the Partnership's businesses or ultimately distributed to the Corporation from its operating subsidiaries. The ability of the Corporation to make dividend payments, and the actual amount paid, is currently 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. Moreover, the Partnership's ability to make cash distributions is, in turn, currently dependent on the Operating LP and KFM LLC making cash distributions. The ability of these entities to make dividend payments, 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.

#### ***Market Price of Common Shares***

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of Acadian, divergence in financial results from expectations, changes in the business prospects for Acadian, general economic conditions, legislative changes, and other events and factors outside of the Corporation's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common shares. The Corporation is unable to predict whether substantial amounts of Common

Shares will be sold in the open market. Any sales of substantial amounts of Common Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Common Shares.

### ***Dilution of Existing Shareholders***

The Corporation is permitted to issue an unlimited number of Common Shares pursuant to its Articles and may do so, subject to compliance with the rules and regulations of the TSX and such other applicable securities regulations, for that consideration and on those terms and conditions as shall be established by the Directors without the approval of any Shareholders. The Shareholders will have no pre-emptive rights in connection with such further issues.

### ***Leverage and Restrictive Covenants in Agreements Relating to Indebtedness***

The ability of the Corporation and its subsidiaries to 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 Shareholders 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.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Partnership and its subsidiaries to create liens or other encumbrances, to make cash 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 Partnership to meet certain financial ratios and financial condition tests. A failure by the Partnership 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 Partnership 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 Partnership would be sufficient to repay in full that indebtedness. In addition, a revolving portion of the Credit Facilities will mature February 26, 2011, and accordingly, the Partnership 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 Partnership, or available on acceptable terms, in an amount sufficient to fund the Partnership's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of the Partnership and could therefore affect the ability of the Corporation to pay dividends on its Common Shares.

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 could therefore affect the ability of the Corporation to pay dividends on its Common Shares. See "Debt Financing".

## **Risks Related to the Arrangement**

### ***Taxation Risk***

The Corporation will file all required income tax returns in a manner that it believes will be in full compliance with the provisions of the *Income Tax Act (Canada)* and all applicable provincial legislation. It is expected that the Corporation will benefit from certain federal tax account balances which existed in the Corporation at the time of the Arrangement. However, the Corporation's income tax returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of certain expenditures, or the restriction of the deductibility of all or any portion of such federal tax account balances, such reassessment may have an impact on current and future taxes payable by the Corporation. Any such impact may have a material adverse effect on the Corporation.

Furthermore, Canadian federal or provincial income tax legislation may be amended, or its interpretation changed, possibly with retroactive effect, in a manner which alters fundamentally the availability of such federal tax account balances to the Corporation.

### ***Third Party Credit/Contractual Risks***

The Corporation is or may be exposed to third party credit/contractual risk relating to obligations of CellFor and New CellFor in connection with the Arrangement. Prior to the completion of the Arrangement, the Fund, through the terms and conditions of the Arrangement Agreement, the terms and conditions of the divestiture agreement and instrument of conveyance dated January 1, 2010 between CellFor and New CellFor (the "**Divestiture Agreement**") and the terms and conditions of the indemnity agreement entered into by New CellFor in favour of CellFor as of January 1, 2010 (and subsequently assumed by the Corporation in place of CellFor) (the "**Indemnity Agreement**"), attempted to ensure that the applicable liabilities and obligations relating to the business of CellFor are transferred to and assumed by New CellFor, and that the Corporation would be released from any such obligations. However, where such transfers or releases are not effective, the Corporation may be subject to third party credit/contractual risk relating to the obligations of CellFor and New CellFor. Such third party liabilities for which the Corporation may become liable could have a material adverse effect on the business, financial condition and results of operations of the Corporation.

### ***Due Diligence Risks***

Although the Fund conducted investigations of, and engaged legal counsel to assist in the review of the corporate, legal, financial, tax and business records of CellFor to identify third party credit/contractual risk and to structure its conversion transaction to protect against such risks, there may be liabilities or risks that the Fund may not have uncovered in its due diligence investigations, or that may have an unanticipated material adverse effect on the Corporation. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of the Corporation.

### ***CellFor Operational Risks***

The Corporation is or may be exposed to operational risk relating to obligations of CellFor and New CellFor, including with respect to intellectual property matters, product liability or environmental damage. The Fund has, through the respective terms and conditions of the Arrangement Agreement, the Divestiture Agreement and the Indemnity Agreement, attempted to ensure that the applicable liabilities and obligations relating to the business of CellFor are transferred to and assumed by New CellFor, and that the Corporation is released from any such obligations. However, where such transfers or releases are not effective, the Corporation may be subject to operational risks of CellFor and New CellFor. Should the Corporation become liable for such matters, it could have a material adverse effect on the business, financial condition and results of operations of the Corporation.

### ***Reliance on the Indemnity***

The Fund attempted to reduce the third party credit/contractual risk, due diligence risk and CellFor operational risk by obtaining, for the benefit of the Corporation, the covenants under the Indemnity Agreement. The Corporation believes that the protection afforded by the terms of the Indemnity Agreement reduces these risks to an acceptable level. However, this presumes that New CellFor has the financial resources to meet its obligations under the Indemnity Agreement.

In the event that New CellFor defaults on its contractual obligations under the Indemnity Agreement or becomes insolvent or bankrupt, the Corporation could become liable for the liabilities of CellFor and New CellFor, which could have a material adverse effect on the business, financial condition and results of operations of the Corporation.

### ***Anticipated Benefits of the Arrangement***

Achieving the anticipated benefits of the Arrangement will depend in part on the Corporation's ability to realize the anticipated opportunities from reorganizing the Fund into a corporate structure. Management expects that the corporate structure will allow the Corporation to adopt similar policies with respect to capital expenditures as were in place with the trust structure. In addition, the Arrangement is expected to simplify the operations of the continuing entity, the Corporation. The realization of the anticipated benefits of the Arrangement will require the dedication of substantial management effort, time and resources. There can be no assurance that management will be successful in the continuing of the entity as a dividend-paying entity.

## **CAPITAL STRUCTURE**

### **Common Shares**

The Corporation is authorized to issue an unlimited number of Common Shares of which 16,731,216 are issued and outstanding as at March 26, 2010.

Each Common Share entitles the holder thereof to receive notice of, to attend, and to one vote at, all meetings of the Shareholders. The holders of Common Shares will be entitled to receive any dividends if, as and when declared by the board of Directors of the Corporation. The holders of Common Shares will also be entitled to share equally, share-for-share, in any distribution of the assets of the Corporation upon the liquidation, dissolution or winding-up of the Corporation or other distribution of its assets among its Shareholders for the purpose of winding-up its affairs. Additional information relevant to the Common Shares, the rights of holders thereof and the operation and conduct of the Corporation can be found in the Corporation's by-law, which has been filed under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Book-Entry Only System**

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

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

## Dividend Policy

The board of Directors declared a dividend per Common Share to holders of Common Shares as of January 15, 2010 in the amount of \$0.01667, which dividend was paid on January 29, 2010. This January 2010 dividend was declared and paid in lieu of the December 2009 distribution of the Fund, which was undeclared in light of the timing of the completion of the Arrangement on January 1, 2010. The board of Directors have established and adopted a current dividend policy that is equivalent, on an annual basis, to the previous distribution policy of the Fund. Dividends under this policy are intended to be paid quarterly to Shareholders of record on the last business day of each quarter with actual payment to be made to such Shareholders on or about the 15<sup>th</sup> day of the following month, subject to any contractual restrictions on such dividends, including any agreements entered into with lenders of the Corporation or its affiliates. The initial quarterly dividend has been determined to be \$0.05 per Common Share and will be paid on April 15, 2010 to Shareholders of record on March 31, 2010.

As a corporation, the Corporation's dividend policy will be at the discretion of its board of Directors. Future dividends, if any, will depend on the operations and assets of Acadian and will be subject to various factors, including, without limitation, Acadian's financial performance, fluctuations in its working capital, the sustainability of its margins, its capital expenditure requirements, obligations under its credit facilities, provisions of applicable law (including satisfying the dividend solvency test applicable to CBCA corporations such as the Corporation) and other factors that the Directors may deem relevant from time to time. There can be no guarantee that the Corporation will maintain its dividend policy. See "Risk Factors – Risks Related to the Structure of the Corporation".

## DIRECTORS AND OFFICERS OF THE CORPORATION

### Board of Directors

As of March 26, 2010, the name, province or state, and country of residence of each of the Directors, their respective principal occupations, business or employment within the five preceding years, their beneficial ownership of, or control or direction over, Common Shares (in each instance based upon information furnished by such person) and the years in which they became Trustees of the Fund and Directors of the Corporation is set out below. Each of the Directors listed below was a Trustee and became a Director upon completion of the Arrangement on January 1, 2010. The term of office for each of the Directors will expire at the time of the next annual meeting of the Shareholders. A Director may be removed by a resolution passed by a majority of the Shareholders or may resign. Subject to the CBCA, a quorum of the board of Directors may fill a vacancy (except a vacancy resulting from an increase in the number or minimum or maximum number of directors or from a failure of the Shareholders to elect the number or minimum number of directors provided for in the Articles). Each of the following Directors have also been nominated for re-election at the Corporation's next annual meeting being held on April 29, 2010 as more fully described in the Corporation's Management Information Circular dated as of March 26, 2010.

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#### **J.W. BUD BIRD, O.C.**

- Director
- Member of the Audit Committee
- Member of the Compensation, Nominating, and Corporate Governance Committee

#### **Profile:**

Mr. Bird is Chairman and Chief Executive Officer of Bird Holdings Ltd. and Bird Lands Limited, both private business investment and real estate development companies. He was the founder and former owner of the Bird-Stairs distribution company, which operates in the construction products sector throughout Atlantic Canada. He is a Director of Enbridge Gas New Brunswick, Chairman Emeritus of Miramichi Salmon Association and Director of Atlantic Salmon Federation. Mr. Bird has been a previous Director of the former Noranda Inc., Nexfor Inc. (which subsequently changed its name to Norbord Inc.) and of ADI Limited. He has been a former elected representative at all three levels of government, Mayor of Fredericton, Minister of Natural Resources for the Province of New Brunswick and a Member of Parliament. Mr. Bird is "financially literate" for the purposes of National Instrument 52-110 – *Audit Committees* and the board of Directors has determined that he is "independent" for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*. He is a resident of Fredericton, New Brunswick.



Mr. Bird was a Trustee of the Fund from January 23, 2006 to January 1, 2010 and has been a Director since January 1, 2010.

Mr. Bird owns 5,000 Common Shares of the Corporation.

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**REID CARTER**

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- Director
- President and Chief Executive Officer

**Profile:**

Mr. Carter is the President and Chief Executive Officer of the Corporation, the Managing Partner of Brookfield and the President of Brookfield GP, which is the general partner of Brookfield LP, which provides administrative services to the Corporation as described under “Arrangements with Brookfield LP”, in which capacities Mr. Carter leads Brookfield’s timberlands management strategy. Mr. Carter is focused on the acquisition and management of private timberlands throughout North America and Latin America. Since his joining Brookfield in 2003, Brookfield’s timberlands portfolio has grown from a modest operation of 400,000 acres under management to the sixth largest timberland estate in North America by value, with more than 2.5 million acres under management. Mr. Carter joined Brookfield after serving as National Bank Financial’s Paper and Forest Products Research Analyst where he was a top-ranked analyst. Mr. Carter has a detailed understanding of the management, assets and relative global competitive positioning of North American Paper and Forest Products companies. Mr. Carter is a BC Registered Professional Forester and has over 29 years of experience in the forest industry including senior roles in TimberWest Forest Corp. and Fletcher Challenge Canada. He is a resident of West Vancouver, British Columbia.

Mr. Carter was a Trustee of the Fund from January 31, 2006 to January 1, 2010 and has been a Director since January 1, 2010.

Mr. Carter owns 8,300 Common Shares of the Corporation.

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**DAVID MANN**

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- Director
- Chair of the Audit Committee
- Member of the Compensation, Nominating, and Corporate Governance Committee

**Profile:**

Mr. Mann is legal counsel at Cox & Palmer, a full service Atlantic provinces law firm, and has over 30 years of experience in the practice of corporate and commercial law, with particular emphasis on corporate finance and public utility regulation. Mr. Mann has held the position of Vice Chairman of Emera Inc., a diversified energy and services company listed on the Toronto Stock Exchange (the “TSX”), from November, 2004 to April, 2005, prior to which he was the company’s President and C.E.O. since January 1999. Mr. Mann was President and C.E.O. of Nova Scotia Power Inc., another TSX listed company, from 1996 to 2004. Mr. Mann is the Chairman of the audit committee for NewGrowth Corp and Allbanc Split Corp, he is also the chairman of Logistec Corporation, three TSX listed companies, and the Chairman of Shear Wind Inc., which is listed on the TSX Venture Exchange. Mr. Mann holds a Bachelor of Commerce and a Bachelor of Laws from Dalhousie University and a Master of Laws from the University of London, England. Mr. Mann is “financially literate” for the purposes of National Instrument 52-110 – *Audit Committees* and the board of Directors has determined that he is “independent” for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*. Mr. Mann is a resident of Chester, Nova Scotia.

Mr. Mann was a Trustee of the Fund from January 31, 2006 to January 1, 2010 and has been a Director since January 1, 2010.

Mr. Mann owns 5,000 Common Shares of the Corporation.

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**LOUIS J. MAROUN**

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- Director (Lead Director)
- Member of the Audit Committee
- Chair of the Compensation, Nominating, and Corporate Governance Committee

**Profile:**

Mr. Maroun was most recently the Executive Chairman of ING Real Estate Canada, one of Canada’s leading real estate investment managers and largest Industrial landlord. Mr. Maroun also serves on the board of InStorage REIT, a TSX listed company. Mr. Maroun is also Past Chair of the National Board of Directors of the MS Society of Canada, a director of the MS Research Foundation, co-founder of Casting for Recovery Canada, Chair of the End MS Training Network Committee, Board member of Techlink Entertainment and Chair of its Governance Committee, a Director of the Atlantic Salmon Foundation and recently appointed to the Business Advisory Committee - Shannon School of Business. Mr. Maroun is “financially literate” for the purposes of National Instrument 52-110 – *Audit Committees* and the board of Directors has determined that he is “independent” for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*. Mr. Maroun is a resident of Devonshire, Bermuda.

Mr. Maroun was a Trustee of the Fund from January 31, 2006 to January 1, 2010 and has been a Director since January 1, 2010.

Mr. Maroun owns 119,000 Common Shares of the Corporation.

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**SAMUEL J.B. POLLOCK**

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- Director (Chair of the Board)

**Profile:**

Mr. Pollock is Senior Managing Partner at Brookfield. Mr. Pollock is responsible for the expansion of the infrastructure operating platform and Brookfield's proprietary investment initiatives. Mr. Pollock joined Brookfield's financial services operation in 1994 and has held various senior positions in the organization, including leadership of the company's financial advisory services and merchant banking operations. He currently serves as a director of Fraser Papers Inc., Tri-White Corporation and Brookfield Infrastructure Partners. Mr. Pollock is a Chartered Accountant and holds a business degree from Queen's University. Mr. Pollock is a resident of Oakville, Ontario.

Mr. Pollock was a Trustee of the Fund from January 31, 2006 to January 1, 2010 and has been a Director since January 1, 2010.

Mr. Pollock owns 15,000 Common Shares of the Corporation.

## Officers of the Corporation

As of March 26, 2010, the name, province or state, and country of residence of each of the officers of the Corporation, their respective principal occupations, business or employment within the five preceding years, and their beneficial ownership of, or control or direction over, Common Shares (in each instance based upon information furnished by such person); except that such information for Reid Carter, the President and Chief Executive Officer of the Corporation, is set out above. Each of the persons listed below was appointed an officer of the Corporation upon completion of the Arrangement on January 1, 2010.

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**REID CARTER**

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- President and Chief Executive Officer

**Profile:**

See above under "Directors and Officers of the Corporation – Board of Directors".

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**BRIAN BANFILL**

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- Senior Vice-President and Chief Financial Officer

**Profile:**

Mr. Banfill is the Senior Vice-President and Chief Financial Officer of the Corporation and is also the Senior Vice-President, Finance of Brookfield GP, the general partner of Brookfield LP, which provides certain administrative services to the Corporation as described under "Arrangements with Brookfield LP". Mr. Banfill joined Brookfield in 2003 as part of a team responsible for acquiring and restructuring integrated wood product companies with significant timberland holdings. As part of this role, Mr. Banfill served as Chief Financial Officer of Cascadia Forest Products until its sale to Western Forest Products in April 2006. Mr. Banfill now has overall responsibility for the accounting and finance function of all timberlands operations managed by Brookfield. Prior to joining Brookfield, Mr. Banfill provided IT consulting services to various organizations and was employed for more than 12 years with West Fraser Timber, primarily in the role of Controller for West Fraser Timber's Solid Wood Operations group. He is a Certified General Accountant with over 25 years of experience in the forest industry. Mr. Banfill is a resident of Burnaby, British Columbia.

Mr. Banfill first became Senior Vice-President, Finance of Brookfield GP on May 10, 2005.

Mr. Banfill owns 0 Common Shares of the Corporation.

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**LEIGH TANG**

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- Corporate Secretary and Manager, Business & Corporate Services

**Profile:**

Ms. Tang is the Corporate Secretary and Manager, Business & Corporate Services of the Corporation, in which capacity Ms. Tang provides administrative support services in the areas of investor relations, issuer disclosure requirements, and provides administrative support to the Board of Directors as required. She previously provided these services to the Fund since its inception in 2006. Ms. Tang joined Brookfield in February, 2004 where she has held administrative support roles. Ms. Tang is a resident of Port Moody, British Columbia.

Ms. Tang first became Corporate Secretary and Manager, Business & Corporate Services of the Corporation on January 1, 2010.

Ms. Tang owns 0 Common Shares of the Corporation.

## **Ownership of Voting Securities**

As of the date of this AIF, the directors and officers of the Corporation, as a group, beneficially own or exercise control or direction over approximately 152,300 Common Shares, representing approximately 0.1% of the issued and outstanding Common Shares.

## **Cease Trade Orders or Bankruptcies**

Other than as set forth below, to the knowledge of the Corporation, none of the Directors or officers of the Corporation: (a) are, as at the date of this AIF, or have been, within the 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Fund) that, (i) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an “**Order**”) that was issued while the person was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; (b) are, as at the date of this AIF, or have been within 10 years before the date of this AIF, a director or executive officer of any company (including the Fund) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (c) have, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the person.

Mr. Samuel J.B. Pollock, the Chair of the board of Directors, has served as a member of the board of directors of Fraser Papers since April 2004. On June 18, 2009, Fraser Papers, together with its subsidiaries, initiated a court-supervised restructuring under the *Companies’ Creditors Arrangement Act (Canada)* (“**CCAA**”) in the Ontario Superior Court of Justice and shortly thereafter obtained similar relief pursuant to Chapter 15 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Fraser Papers then initiated a bid process for the sale of the company with this process approved by the Ontario Superior Court on December 10, 2009 and by the U.S. Bankruptcy Court for the District of Delaware on January 5, 2010. This bid process was unsuccessful and Fraser Papers terminated the bid process on January 26, 2010 and is now working diligently to clear the remaining conditions and complete the firm purchase offer that was sponsored by Fraser Papers’ secured creditors and signed on December 22, 2009.

## **Penalties or Sanctions**

To the knowledge of the Corporation, none of the Directors or officers of the Corporation, nor any personal holding company thereof owned or controlled by them, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Conflicts of Interest**

There are potential conflicts of interest to which the Directors and officers of the Corporation and the executive officers of Brookfield GP are subject in connection with the operations of the Corporation. In particular, certain of the Directors and officers of the Corporation and the executive officers of Brookfield GP may be involved with other companies whose operations may, from time to time, be in direct competition with those of the Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation. Conflicts, if any, will be subject to the procedures and remedies available under the CBCA. The CBCA provides that in the event a director or officer of a company is a party to, or is a director or officer of a party to, or has a material interest in any person who is a party to, a material contract or material transaction with the

Corporation, whether made or proposed, the director or officer will disclose his or her interest in such contract or transaction and, in the case of directors, will refrain from voting on any matter in respect of such contract or transaction, subject to certain limited exceptions set out in the CBCA. As at March 26, 2010, none of the Directors or officers of the Corporation or the executive officers of Brookfield GP are aware of any existing or potential material conflicts of interest with the Corporation or any of its subsidiaries.

## **ARRANGEMENTS WITH BROOKFIELD LP**

Brookfield LP assists in the preparation and implementation of the overall strategic plan in respect of the timberland 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 a management agreement between the Operating LP, KFM LLC, and Brookfield LP, which was amended and restated on January 1, 2010 to reflect the new corporate structure of the Corporation and its subsidiaries (the “**Amended and Restated Management Agreement**”). The Amended and Restated Management Agreement also provides that Brookfield LP, in addition to its management duties concerning the Operating LP and KFM LLC (as more fully described below), may also provide administrative services to the Corporation, to the extent required by the Corporation. The Amended and Restated 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, Brookfield LP, under the oversight, direction and authority of the Operating LP and KFM LLC, and subject to adherence with the overall strategic plan in respect of the timberland assets 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;
- 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; and
- providing oversight of certain treasury services.

In addition to the management services that Brookfield LP provides to the Operating LP and KFM LLC, Brookfield LP may also provide administrative services to the Corporation, as required, including:

- advising and assisting with community and investor relations;
- overseeing the Corporation’s reporting requirements under applicable law;
- providing assistance with and oversight of tax planning activities and 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 of Directors.

In consideration for the provision of its services, the Amended and Restated Management Agreement entitles Brookfield LP to:

- an annual base fee, payable quarterly in advance, (the “**Base Fee**”) in an amount equal to (i) \$2 million (subject to adjustment based on the Consumer Price Index), plus, (ii) in respect of any acquisitions of timberland assets by the Operating LP and/or KFM LLC outside the ordinary course of business, which require the Operating LP and/or KFM LLC to obtain independent financing or issue additional capital for purposes of raising funds sufficient to fund such non-ordinary course acquisition, 1.25% per year of the aggregate value of such acquired timberland assets (subject to adjustment based on the Consumer Price Index); and
- an annual performance fee (the “**Performance Fee**”) equal to 15% of the amount by which annual dividends per Common Share in respect of the applicable year exceeds \$0.9075, multiplied by the number of Common Shares outstanding as at the end of such year.

The Base Fee and the Performance Fee (if any) are payable by the Operating LP and KFM LLC *pro rata* in relation to their respective ownership of the Timberland Assets.

In performing its responsibilities and satisfying its obligations under the Amended and Restated Management Agreement, Brookfield LP 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.

Brookfield LP is responsible for all of its own expenses, including administrative costs, employment expenses of its personnel (who are employed by Brookfield GP, the general partner of Brookfield LP, or Brookfield), rent and other overhead expenses, and expenses of the Directors and officers of the Corporation and the GP who are also officers or employees of Brookfield GP or of an affiliate of Brookfield LP (except expenses incurred by Directors in attending meetings of the board of Directors).

Each of the Operating LP and KFM LLC may terminate the engagement of Brookfield LP under the Amended and Restated Management Agreement in respect of itself (i) in the event of the insolvency or receivership of Brookfield LP, or (ii) in the case of material breach or default by Brookfield LP of the provisions of the Amended and Restated 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 Brookfield LP is working diligently to cure such default).

Brookfield LP may terminate its engagement as manager under the Amended and Restated 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 Amended and Restated Management Agreement that 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 Brookfield LP, its agents and affiliates, and the directors, officers, employees and shareholders of Brookfield GP, the general partner of Brookfield LP, 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.

Brookfield LP is a wholly-owned subsidiary entity of Brookfield, which holds directly 45.3% of the Common Shares. See “Risk Factors – Risks Related to the Structure of the Corporation – *Dependence on Brookfield and Brookfield LP and Potential Conflicts of Interest*”.

## DEBT FINANCING

The Partnership entered into senior secured credit facilities on January 31, 2006, which include a revolving credit facility of up to \$5.0 million, which was increased to up to \$10.0 million on December 9, 2009 (the “**Revolving Facility**”) and a term credit facility in an amount up to \$42.0 million (the “**Term Facility**”). As at December 31, 2009, \$5.5 million had been drawn on the revolving credit facility. An additional amount of \$4.0 million was drawn on January 4, 2010 and was used to make a capital contribution on Units held by the Corporation. On January 5, 2010 the Corporation, as successor obligor to a loan to CellFor as contemplated in the Arrangement Agreement, repaid such loan by making payment of \$4.0 million to the Partnership. The Partnership used such funds to repay the amount drawn on January 4, 2010. The term facility is fully drawn. The Term Facility and the Revolving Facility are collectively referred to herein as the “Credit Facilities”. The agreement governing the Credit Facilities was amended on November 4, 2008 to extend the maturity of the Credit Facilities and to adjust certain coverage ratios and borrowing margins and rates, and again on December 9, 2009 to extend the maturity of the Credit Facilities, to increase the availability of funds under the Revolving Facility (as described above), to adjust certain coverage ratios and borrowing margins and rates, to allow for the Arrangement to take place and to take into account the new corporate structure of the Corporation.

The Revolving Facility is used for general corporate purposes, 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 February 26, 2011. The Term Facility is a term facility, the term of which was extended in 2008 and again in 2009 and will mature February 26, 2011, with 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 Partnership, or available on acceptable terms, in an amount sufficient to fund the Partnership’s needs. See “Risk Factors – Risks Related to the Business and Industry – *Leverage and Restrictive Covenants in Agreements Relating to Indebtedness of the Partnership*”.

Advances under the Revolving Facility and the Term Facility (other than bankers’ acceptances and LIBOR loans) 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 an applicable margin to those rates (other than in respect of bankers’ acceptances).

As security for the Credit Facilities, the Partnership granted the lenders a security interest over all of its assets. The Operating LP, and each of the Partnership’s other subsidiaries, guaranteed the indebtedness of the Partnership under the Credit Facilities and granted security interests over all of their respective assets. In addition, each of the Corporation and the GP guarantee the indebtedness of the Partnership under the Credit Facilities, with the Corporation’s guarantee being unsecured and the GP’s guarantee secured by all of its assets, including its general partnership interest in the Partnership 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 Partnership is in compliance with these covenants as of March 26, 2010. The Credit Facilities may in certain circumstances restrict the Partnership’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, and restricting to a maximum the distributions on the LP Units for the month of January 2010 and for the first and second quarters of 2010.

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 Partnership, the Operating LP, 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 Common Shares receive any proceeds from the liquidation of the assets of the Corporation.

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.

## **PRINCIPAL AGREEMENTS**

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

### **Crown Lands Services Agreement**

Fraser Papers currently holds licenses from the Government of the Province of New Brunswick in respect of the NB Crown Lands. Fraser Papers has the right to approximately 17% of the annual harvest from the NB Crown Lands in consideration for a royalty fee paid to the Crown. Approximately 83% of the annual harvest from the NB 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 NB 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<sup>3</sup>) 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 NB Crown Lands under the Crown Timber License, Fraser Papers is responsible for collecting and paying to the Government a royalty fee (calculated in \$/m<sup>3</sup> that varies based on species and product type). A levy fee (calculated in \$/m<sup>3</sup> 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 License.

Pursuant to the Crown Lands Services Agreement, Fraser Papers covenants to take all commercially reasonable actions required in order to maintain the Crown Timber License in good standing.

The Crown Lands Services Agreement has a term equal to the term of the Crown Timber License, 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 Papers, 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 Papers, in accordance with established specifications, fibre harvested from the Maine Timberlands. There are no minimum or maximum amounts of fibre that KFM LLC is obligated to make available to Fraser Papers for purchase. The parties are required to agree on partial-year plans to govern the purchase and delivery of fibre from KFM LLC to Fraser Papers at competitive market prices.

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 Papers. The Fraser Papers/KFM LLC Fibre Supply Agreement may be terminated at anytime by the mutual written agreement of the parties, by either party following a material breach by the defaulting party of any monetary obligation under the Fraser Papers/KFM LLC Fibre Supply Agreement which is not remedied within 30 days following delivery of written notice thereof, or by either party following a material breach by the defaulting party of any other obligation under the Fraser Papers/KFM LLC Fibre Supply Agreement which is not remedied within 90 days, subject to any applicable cure periods.

## **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 Common Shares (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 Amended and Restated 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.

## **CellFor License Agreement**

On November 13, 2009, CellFor and 7273177 Canada Inc. entered into the CellFor License Agreement (which was subsequently assumed by New CellFor, as licensor, and the Corporation, as licensee, pursuant to the Arrangement), pursuant to which the Corporation acquired a paid-up, non-exclusive, non-transferable worldwide license to use the intellectual property related to CellFor’s proprietary germplasm of black and red spruce currently cryo-preserved in New CellFor’s tissue banks. The License Agreement also provides that CellFor (now New CellFor) shall store and provide for the upkeep of the spruce germplasm free of charge until such time as the Corporation wishes to take physical possession of it. The license to the related intellectual property continues until the 20<sup>th</sup> anniversary of the License Agreement. Aside from an initial payment of \$10.00, there are no payments or royalties associated with the License Agreement.

## CASH DISTRIBUTIONS AND DIVIDENDS

### Previous Distributions per Unit of the Fund

The following table sets forth the aggregate distributions declared by the Fund in respect of the Units for 2007-2009:

Period	Distributions Per Unit
<b>2007</b>	\$0.8250
<b>2008</b>	\$0.8250
<b>2009</b>	\$0.7043

Note:

- (1) The decline in aggregate distributions per unit in 2009 reflects the Fund's decision on November 10, 2009 to lower its annual distribution from \$0.825 to \$0.20.

### Dividend Policy of the Corporation

On January 4, 2010, the board of Directors declared a dividend per Common Share in the amount of \$0.01667, which was paid on January 29, 2010 to Shareholders of record as at January 15, 2010. This dividend was intended in lieu of a December 2009 distribution on the Fund's Units, which December distribution was not paid in light of the Arrangement. Following the Arrangement, the board of Directors established a dividend policy of paying quarterly dividends to the Shareholders. On March 19, 2010, the board of Directors declared the Corporation's first quarterly dividend per Common Share in the amount of \$0.05, which is expected to be paid on April 15, 2010 to New Acadian Shareholders of record on March 31, 2010.

As a corporation, the Corporation's dividend policy is at the discretion of the Board of Directors. Future dividends, if any, will depend on the operations and assets of the Corporation and will be subject to various factors, including, without limitation, the Corporation's financial performance, fluctuations in its working capital, the sustainability of its margins, its capital expenditure requirements, obligations under its credit facilities, provisions of applicable law (including satisfying the dividend solvency test applicable to CBCA corporations) and other factors that the board of Directors may deem relevant from time to time. There can be no guarantee that the Corporation will maintain its dividend policy. See "Information Concerning CellFor and New Acadian – Risk Factors".

## MARKET FOR SECURITIES

The Common Shares are currently listed for trading on the TSX under the symbol "ADN". None of the units of the Partnership 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 of the Fund on the TSX for each month during 2009, which Units were exchanged on a one for one basis for Common Shares on January 1, 2010 pursuant to the Arrangement:

Unit Trading Price Range	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
High	\$7.02	\$6.50	\$6.25	\$7.08	\$8.49	\$9.25	\$8.30	\$8.75	\$8.48	\$8.10	\$8.19	\$6.50
Low	\$5.90	\$5.69	\$5.10	\$5.81	\$7.00	\$7.26	\$6.91	\$8.10	\$7.80	\$7.55	\$5.80	\$6.11
Close	\$6.10	\$5.75	\$6.05	\$7.00	\$8.49	\$8.25	\$8.06	\$8.30	\$8.05	\$8.00	\$6.38	\$6.35
Monthly Volume	139,983	119,279	356,585	139,607	115,772	182,706	189,919	126,043	87,719	281,083	485,905	305,339

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the Corporation, except as described below and may be described elsewhere in this AIF, no director, or executive officer of the Corporation or any of its subsidiaries, no executive officer of Brookfield GP, the general partner of Brookfield LP, no person or company that is the director or indirect beneficial owner of, or who exercises control or direction over, more than 10% of any class or series of the outstanding voting securities of the Corporation and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction that has materially affected or will materially affect the Corporation since the closing of the Fund's initial public offering on January 31, 2006.

As at March 26, 2010, Brookfield beneficially owned (directly or through one of its affiliates) 7,513,262 Common Shares representing 44.9% of the total number of Common Shares issued and outstanding as of that date. Fraser Papers, a subsidiary of Brookfield of which Brookfield owns 70.5%, has engaged in the following transactions with the Fund or its subsidiaries:

- 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.
- On September 26, 2007, Fraser Papers announced that it had converted into Units (on a one for one basis) and sold its entire holding of Class B LP Units. As part of this transaction, 2,600,000 of the 3,613,780 Units sold by Fraser Papers were purchased by Brookfield. Effective October 1, 2007, Fraser Papers no longer had an ownership interest in the Fund.
- On February 3, 2009, Brookfield converted 4,507,030 Class B Interests it held indirectly in KFM LLC into 4,507,030 Units of the Fund. These Units were held by Brascan US Holdings Inc., a wholly owned subsidiary of Brookfield, which have now been converted, on a one-to-one basis, into Common Shares pursuant to the Arrangement.

Fraser Papers is also a major customer of the Corporation. Approximately 31% of the total sales of the Fund for the year ended December 31, 2009 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers (29% in December 31, 2008). See "Risk Factors – Risks Related to the Business and Industry – *Dependence on 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 a more detailed description of this agreement, see "Principal Agreements – Fibre Supply Agreement".

## **INTERESTS OF EXPERTS**

Ernest H. Bowling, of James W. Sewall Company, produced reports cited under "Description of the Business – Timberland Assets" and "Description of the Business – Forest Management – *Forest Inventory Assessment*" with respect to the carrying out of and completion of inventory assessments, which inventory assessments management evaluates as part of its determination of its estimates of LRSY. Neither these individuals nor James W. Sewall Company, to the best knowledge of management of the Corporation, as at the date hereof, beneficially own any Common Shares.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Corporation 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 Corporation or the Partnership is a party, or which, by their operation, is material to the Corporation, particulars of which are disclosed above:

- (i) the credit agreement, as amended, creating the Credit Facilities, described under “Debt Financing”;
- (ii) the Amended and Restated Management Agreement, described under “Arrangements with Brookfield LP”;
- (iii) the CellFor License Agreement, described under “Principal Agreements – CellFor License Agreement”;
- (iv) the Crown Lands Services Agreement, described under “Principal Agreements – Crown Lands Services Agreement”;
- (v) the Fibre Supply Agreement described, under “Principal Agreements – Fibre Supply Agreement”;
- (vi) the KPC LLC Fibre Supply Agreement described, under “Principal Agreements – Katahdin Paper Company Fibre Supply Agreement”;
- (vii) the KFM Credit Facility, described under “Debt Financing”; and
- (viii) the Exclusivity Agreement, described under “Principal Agreements – Exclusivity Agreement”.

## LEGAL PROCEEDINGS

Management is not aware of any material litigation outstanding, threatened or pending as of the date hereof by or against the Corporation or any of its subsidiaries.

## AUDIT COMMITTEE INFORMATION

The following information is provided in accordance with Form 52-110F1 under National Instrument 52-110 - *Audit Committees* (“NI 52-110”).

### **Audit Committee Mandate**

The Audit Committee Mandate is attached as Schedule “A” to this Annual Information Form.

### **Composition of the Audit Committee**

In fiscal year 2009, 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 NI 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 Mandate. In addition to each member's general business experience, the education and past experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member is set forth in their respective biographies under "Directors and Officers of the Corporation – Board of Directors".

## Audit Committee Oversight

At no time since the commencement of the financial year ended December 31, 2009 has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the board of Trustees of the Fund or, subsequent to January 2, 2010, by the board of Directors of the Corporation.

## Pre-Approval Policies and Procedures

The Audit Committee of the Corporation's board of Directors 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 Corporation'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 2009 and 2008 is included below:

	<b>2009 Actual Fees</b>
Audit Fees	\$260,000
Audit-Related Fees <sup>(1)</sup>	\$52,500
Tax Fees <sup>(2)</sup>	\$50,000
All Other Fees <sup>(3)</sup>	<u>\$107,500</u>
<b>Total Fees</b>	<b><u>\$470,000</u></b>

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

Notes:

- (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 services provided by the external auditor, other than the services reported under "Audit Fees", "Audit-Related Fees" or "Tax Fees", related to Acadian's corporate initiatives in 2009, inclusive of tax due diligence and review of the Fund's management information circular in connection with the Arrangement.

### **ADDITIONAL INFORMATION**

Additional information, including remuneration and indebtedness of the Directors of the Corporation, and the directors of the General Partner and KFM LLC, principal holders of the Corporation's, the Partnership's, the Operating LP's, and KFM LLC's securities, interest of insiders in material transactions, is contained in the Corporation's Management Information Circular for the annual meeting of Shareholders scheduled for April 29, 2010, at which the Directors are to be elected, and additional financial information is provided in the Fund's comparative financial statements for the year ended December 31, 2009, 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](http://www.sedar.com).

## GLOSSARY OF TERMS

“**AAC**” means allowable annual cut;

“**Acadian**” means the Corporation 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;

“**AIF**” means this annual information form dated March 26, 2010;

“**Allowable Cut**” has the meaning ascribed thereto under the heading “Principal Agreements – Fibre Supply Agreement”;

“**Amended and Restated Management Agreement**” means the management agreement originally dated October 3, 2005 between KFM LLC, Fraser Papers and Brookfield LP, as amended on January 31, 2006, which amendment included the replacement of Fraser Papers with the Operating LP as a party thereto, and as amended and restated on January 1, 2010 between the Operating LP, KFM LLC and Brookfield LP;

“**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;

“**Annual Plan**” has the meaning ascribed thereto under the heading “Principal Agreements – Fibre Supply Agreement”;

“**Arrangement**” means the arrangement under section 192 of the CBCA as set out in the plan of arrangement attached as a schedule to the Arrangement Agreement, pursuant to which, on January 1, 2010, the Fund converted from an income fund structure to the Corporation;

“**Arrangement Agreement**” means the arrangement agreement dated November 13, as amended on November 30, 2009 between the Fund, CellFor, New CellFor and 7273177 Canada Inc.;

“**Articles**” means the articles of arrangement of the Corporation dated January 1, 2010;

“**Base Fee**” has the meaning ascribed thereto under the heading “Arrangements with Brookfield LP”;

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

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

“**Brookfield GP**” means Brookfield Timberlands Management GP Inc., the general partner of Brookfield LP;

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

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

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

“**CCAA**” means the *Companies’ Creditors Arrangement Act (Canada)*;

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

“**CDS Participant**” means a participant in the CDS depository service;



“**CellFor**” means CellFor Inc., prior to the completion of the Arrangement;

“**CellFor License Agreement**” means the license agreement dated as of November 13, 2009 between CellFor and 7273177 Canada Inc. (and subsequently assumed by New CellFor, as licensor, and the Corporation, as licensee, pursuant to the Arrangement) in respect of CellFor’s proprietary germplasm of black and red spruce and the license of the intellectual property related to the spruce;

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

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

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

“**Common Shares**” means the common shares of the Corporation and “**Common Share**” means any one of them;

“**Corporation**” means Acadian Timber Corp.;

“**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, established under a credit agreement entered into on January 31, 2006, and as amended on November 4, 2008 and December 9, 2009;

“**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 NB Crown Lands;

“**Crown Timber License**” means New Brunswick Crown Timber License #9 (the combination of former licenses #9 and #10) issued by the Government of the Province of New Brunswick pursuant to which Fraser Papers manages the NB Crown Lands;

“**Divestiture Agreement**” means the divestiture agreement and instrument of conveyance dated January 1, 2010 between CellFor and New CellFor, which provided for the transfer of certain assets to New CellFor and the assumption by New CellFor of certain liabilities of CellFor in connection with the Arrangement;

“**Eastern Canada**” means Ontario, Quebec and the Maritime provinces;

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

“**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 Management Plan**” has the meaning ascribed thereto under the heading “Principal Agreements – 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 NB 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, which converted into the Corporation pursuant to the Arrangement;

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

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

“**Indemnity Agreement**” means the indemnity agreement entered into by New CellFor in favour of CellFor as of January 1, 2010 (and subsequently assumed by the Corporation in place of CellFor);

“**Initial Period**” has the meaning ascribed thereto under the heading “Principal Agreements – Fibre Supply Agreement”;

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

“**KFM Credit Facility**” means KFM LLC’s senior term loan facility in an aggregate amount of \$31.5 million, established pursuant to a credit agreement 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 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;

“**NB 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;

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

“**New CellFor**” means 7273126 Canada Inc., prior to the completion of the Arrangement, which was renamed CellFor Inc., upon completion of the Arrangement;

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*;

“**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;

“**Order**” has the meaning ascribed thereto under the heading “Directors and Officers of the Corporation – Cease Trade Orders or Bankruptcies”;

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

“**Performance Fee**” has the meaning ascribed thereto under the heading “Arrangements with Brookfield LP”;

“**Price Period**” has the meaning ascribed thereto under the heading “Principal Agreements – Fibre Supply Agreement”;

“**Revolving Facility**” means the senior revolving credit facility in an aggregate principal amount of up to \$10 million;

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

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

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

“**SEDAR**” means the System for Electronic Data Analysis and Retrieval;

“**Semi-Annual Plan**” has the meaning ascribed thereto under the heading “Principal Agreements – KPC LLC Fibre Supply Agreement”;

“**Shareholders**” means the holders of Common Shares and “**Shareholder**” means any one of them;

“**SIFT Rules**” has the meaning ascribed thereto under the heading “Development of the Business – The Conversion of the Fund to the Corporation”;

“**Units**” means the units of the Fund and “**Unit**” means any one of them, all of which were converted into Common Shares on a one for one basis pursuant to the Arrangement; and

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

## SCHEDULE “A”



ACADIAN TIMBER

### ACADIAN TIMBER CORP.

#### *AUDIT COMMITTEE MANDATE*

A committee of the board of directors (the “**Board**”) of Acadian Timber Corp. (the “**Corporation**”) to be known as the Audit Committee (the “**Committee**”) shall have the mandate set out below. The Board has passed a resolution as of February 9, 2010 approving this mandate (the “**Mandate**”) as the mandate of the Committee.

#### 1. PURPOSE OF THE COMMITTEE

The Committee is established in order to assist the Board in its oversight and supervision of:

- a) the integrity of the Corporation’s accounting and financial reporting practices and procedures;
- b) the adequacy of the Corporation’s internal accounting controls and procedures;
- c) the compliance by the Corporation with legal and regulatory requirements in respect of financial disclosure;
- d) the assessment, monitoring and management of the material risks of the Corporation’s business;
- e) the quality and integrity of the Corporation’s consolidated financial statements; and
- f) the qualification, independence and performance of the Corporation’s independent auditor.

In addition, the Committee provides an avenue for communication between the independent auditor, the Corporation’s Chief Financial Officer and other senior management, other employees and the Board concerning accounting, auditing and risk management matters.

The Committee is directly responsible for the recommendation of the appointment and retention (and termination) and for the compensation and the oversight of the work of the independent auditor (including oversight of the resolution of any disagreements between senior management and the independent auditor regarding financial reporting) for the purpose of preparing audit reports or performing other audit, review or attest services for the Corporation.

Each member of the Committee shall be entitled to rely in “good faith” upon:

- a) financial statements of the Corporation represented to him or her by senior management of the Corporation or in a written report of the independent auditor to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles; and

- b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

“Good faith reliance” means that the Committee member has considered the relevant issues, questioned the information provided and assumptions used, and assessed whether the analysis provided by senior management or the expert is reasonable. Generally, good faith reliance does not require that the member question the honesty, competence and integrity of senior management or the expert unless there is a reason to doubt their honesty, competency and integrity.

The fundamental responsibility for the Corporation’s financial statements and disclosure rests with senior management. It is not the duty of the Committee to conduct investigations, to itself resolve disagreements (if any) between senior management and the independent auditor or to assure compliance with applicable legal and regulatory requirements.

## **2. SPECIFIC RESPONSIBILITIES**

### ***Independent Auditor***

The Committee shall:

- a) recommend the appointment and the compensation of; and, if appropriate, the termination of the independent auditor, subject to such Board and shareholder approval as is required under applicable legal and regulatory requirements;
- b) obtain confirmation from the independent auditor that it ultimately is accountable, and will report directly, to the Committee;
- c) oversee the work of the independent auditor, including the resolution of any disagreements between senior management and the independent auditor regarding financial reporting;
- d) pre-approve all audit and non-audit services (including any internal control-related services) provided by the independent auditor (subject to any restrictions on such non-audit services imposed by applicable legal and regulatory requirements);
- e) adopt such policies and procedures as it determines appropriate for the pre-approval of the retention of the independent auditor by the Corporation and any of its subsidiaries or any audit or non-audit services, including procedures for the delegation of authority to provide such approval to one or more members of the Committee; and
- f) at least annually, review the qualifications, performance and independence of the independent auditor.

### ***The Audit Process, Financial Statements and Related Disclosure***

The Committee shall, as it determines to be appropriate:

- a) meet with senior management and/or the independent auditor to review and discuss:
  - i. the planning, staffing and budgeting of the audit by the independent auditor,

- ii. before public disclosure, the Corporation's annual audited financial statements and quarterly financial statements, the Corporation's accompanying disclosure of Management's Discussion and Analysis and earnings press releases and make recommendations to the Board as to their approval and dissemination of those statements and disclosure,
  - iii. financial information and earnings guidance provided to analysts and rating agencies (this review need not be done on a case by case basis but may be done generally, consisting of a discussion of the types of information disclosed and the types of presentations made, and need not take place in advance of the disclosure),
  - iv. any significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the selection or application of accounting principles, any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect the Corporation's financial statements,
  - v. all critical accounting policies and practices used,
  - vi. all alternative treatments of financial information within GAAP that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor,
  - vii. the use of "*pro forma*" or "adjusted" non-GAAP information,
  - viii. the effect of new regulatory and accounting pronouncements,
  - ix. the effect of any material off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise) on the Corporation's financial statements,
  - x. any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls or disclosure controls made to the Committee, and
  - xi. the adequacy of the Corporation's internal accounting controls and management information systems and its financial, auditing and accounting organizations and personnel (including any fraud involving an individual with a significant role in internal controls or management information systems) and any special steps adopted in light of any material control deficiencies;
- b) review disclosure of financial information extracted or derived from the Corporation's financial statements; and
- c) review with the independent auditor,
- i. the quality, as well as the acceptability, of the accounting principles that have been applied,
  - ii. any problems or difficulties the independent auditor may have encountered during the provision of its audit services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with senior management, any management letter provided by the independent auditor or other

material communication (including any schedules of unadjusted differences) to senior management and the Corporation's response to that letter or communication, and

- iii. any changes to the Corporation's significant auditing and accounting principles and practices suggested by the independent auditor or other members of senior management.

### ***Risk Management***

The Committee shall review with senior management, on at least an annual basis, the Corporation's guidelines and policies with respect to risk assessment and the Corporation's major financial risk exposures and the steps senior management has taken to monitor and control such exposures, including a review of all risk management policies and the scope of the Corporation's annual insurance coverage.

### ***Compliance***

The Committee shall, as it determines to be appropriate:

- a) obtain reports from senior management that the Corporation and its subsidiaries are in compliance with applicable legal requirements and the Corporation's Code of Business Conduct;
- b) review with senior management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Corporation's financial statements or accounting policies;
- c) review senior management's written representations to the independent auditor;
- d) establish procedures for,
  - i. the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and
  - ii. the confidential, anonymous submission by employees of the Corporation with concerns regarding any accounting or auditing matters.

## **3. MEMBERSHIP AND ORGANIZATION**

- a) Following each annual meeting of the Corporation's shareholders, the Board shall appoint from its number three (3) directors to serve on the Committee (the "**Members**") until the close of the next annual meeting of shareholders of the Corporation (provided that if such appointment is not made, the Member shall continue as a member of the Committee until his or her successor is appointed) or until the Member ceases to be a director, resigns or is replaced, whichever first occurs.
- b) A majority of the Members of the Committee shall be "independent" as set out in the mandate of the Board.
- c) A Member who sits on the board of directors of an affiliated entity is exempt from the requirement that he or she be independent if that person, except for being a director (or member of a Board committee) of the Corporation and the affiliated entity, is otherwise independent of the Corporation and the affiliated entity, provided that the Board has determined that appointing such

member to the Committee will not materially adversely affect the ability of the Committee to act independently.

- d) No director who receives any compensation from the Corporation, its affiliates or Brookfield Asset Management Inc. or its affiliates, other than director's fees, shall be eligible for membership on the 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 director's firm for such consulting or advisory services, even if the director is not the actual service provider.
- e) Each Member shall, in the judgment of the board, be "financially literate" as defined in National Instrument 52-110 – *Audit Committees*. In addition, at least one Member shall, in the judgment of the Board, have accounting or related financial management expertise.
- f) The Board shall appoint one of the Members as the chairperson of the Committee (the "Chair"). If the Chair is absent from a meeting, the Members shall select a chairperson from those in attendance to act as chairperson of the meeting. The Chair's responsibilities have been determined and approved by the Board and have been set out in a written position description.
- g) The compensation of Members shall be as determined by the Board.

#### 4. PROCEDURES AND ADMINISTRATION

- a) **Meetings** – Meetings of the Committee may be called by the Chair or the chairperson of the Board. Meetings will be called not less than once annually. Notice of each meeting shall be given to each Member and to the Chair and, to the extent the Chair determines, to the independent auditor of the Corporation, verbally or by letter, e-mail, 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.
- b) **Quorum and voting** – 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 from time to time. Subject to the foregoing, and the constating documents under which the Corporation was created, and unless otherwise determined by the Board, the Committee shall have the power to fix its quorum and to regulate its procedure. Matters decided by the Committee shall be decided by majority vote.
- c) **Investigations** – In discharging its duties, the Committee shall have full access to all corporate books, records, facilities, personnel and outside professionals. 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.
- d) **Independent Advisors** – The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent consultants and independent legal, accounting or other advisors, who may be regular advisors to the Corporation. The Corporation shall provide such funding as the Committee determines is appropriate in connection with the retention of such advisors.



- e) **Reports to the Board** – The Committee shall report to the board on its proceedings, reviews undertaken and any associated recommendations.

## 5. ANNUAL EVALUATION

At least annually, the Committee shall, in a manner it determines to be appropriate:

- a) perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with this Mandate; and
- b) review and assess the adequacy of this Mandate and the position description for the committee chair and recommend to the Board any improvements that the Committee believes to be appropriate.