



ACADIAN TIMBER

# **ACADIAN TIMBER INCOME FUND**

## **Annual Information Form**

March 26, 2007

## Table of Contents

<b>THE FUND.....</b>	<b>1</b>
<b>DEVELOPMENT OF THE BUSINESS.....</b>	<b>3</b>
Origins of the Business .....	3
Fund IPO.....	3
<b>DESCRIPTION OF THE BUSINESS .....</b>	<b>4</b>
Overview of Acadian’s Business .....	4
Timberland Assets .....	5
Acadian’s Business Strategy .....	10
Acadian’s Operations.....	11
Forest Management.....	17
Regulatory Environment.....	20
Environmental Matters.....	20
Public Relations/Aboriginal Relations.....	21
<b>DESCRIPTION OF THE FUND .....</b>	<b>21</b>
General.....	21
Activities of the Fund.....	21
Units and Special Voting Units.....	22
Issuance of Units.....	22
Trustees.....	23
Distributions.....	24
Redemption at the Option of Unitholders .....	25
Repurchase of Units.....	26
Meetings of Voting Unitholders.....	26
Limitation on Non-Resident Ownership .....	28
Amendments to the Fund Declaration of Trust.....	29
Term of the Fund .....	29
Take-over Bids.....	29
Exercise of Certain Voting Rights Attached to Securities of the Trust, the GP, the LP and the Operating LP .....	30
Information and Reports .....	30
Book-Entry Only System .....	31
Conflicts of Interest Restrictions and Provisions .....	32
Rights of Unitholders.....	32
Financial Year End .....	33
<b>DESCRIPTION OF THE TRUST .....</b>	<b>33</b>
General.....	33
Restrictions on Trust’s Trustees’ Powers.....	33
Redemption Right.....	34
Distributions.....	35

Trust Notes.....	35
Trust Unit Certificates.....	37
Meetings of Unitholders.....	37
<b>DESCRIPTION OF THE LP .....</b>	<b>37</b>
General.....	37
Capitalization .....	37
Distributions.....	37
Allocation of Earnings and Losses.....	38
Limited Liability .....	38
Transfer of LP Units .....	38
Amendment.....	39
Meetings .....	39
<b>DESCRIPTION OF THE OPERATING LP .....</b>	<b>39</b>
General.....	39
Capitalization .....	40
Distributions.....	40
Allocation of Earnings and Losses.....	40
Limited Liability .....	40
Transfer of LP Units .....	40
Amendment.....	41
Meetings .....	41
<b>DESCRIPTION OF THE GP .....</b>	<b>41</b>
General.....	41
Functions and Powers of the GP .....	42
Withdrawal or Removal of the GP.....	42
<b>DESCRIPTION OF CANCO, USCO AND KFM LLC .....</b>	<b>42</b>
General.....	42
CanCo and USCo Distribution Policy.....	42
KFM LLC Capital and Distributions .....	43
KFM LLC Common Membership Interests .....	43
KFM LLC Class B Interests.....	43
CanCo Note.....	44
USCo Note.....	44
<b>THE MANAGER.....</b>	<b>45</b>
<b>DEBT FINANCING .....</b>	<b>47</b>
<b>RETAINED INTEREST/ PRINCIPAL UNITHOLDERS .....</b>	<b>48</b>
<b>PRINCIPAL AGREEMENTS.....</b>	<b>49</b>
FP Exchange Agreement.....	49
Crown Lands Services Agreement.....	49

Fibre Supply Agreement .....	50
KPC LLC Fibre Supply Agreement .....	51
Fraser Papers/KFM LLC Fibre Supply Agreement .....	52
Exclusivity Agreement .....	52
<b>DISTRIBUTIONS .....</b>	<b>53</b>
Distributions per Unit .....	53
Distribution Policy .....	53
<b>MARKET FOR SECURITIES.....</b>	<b>53</b>
<b>TRUSTEES AND OFFICERS OF THE FUND.....</b>	<b>53</b>
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....</b>	<b>53</b>
<b>TRANSFER AGENTS AND REGISTRARS.....</b>	<b>54</b>
<b>MATERIAL CONTRACTS .....</b>	<b>54</b>
<b>RISK FACTORS .....</b>	<b>54</b>
Risks Related to the Business and Industry.....	55
Risks Related to the Structure of the Fund.....	59
<b>MANAGEMENT DISCUSSION AND ANALYSIS .....</b>	<b>63</b>
<b>LEGAL PROCEEDINGS.....</b>	<b>63</b>
<b>PROMOTER.....</b>	<b>63</b>
<b>AUDIT COMMITTEE INFORMATION .....</b>	<b>64</b>
<b>ADDITIONAL INFORMATION.....</b>	<b>65</b>
<b>GLOSSARY OF TERMS .....</b>	<b>66</b>
<b>Schedule A .....</b>	<b>70</b>

## THE FUND

### THE FUND, THE TRUST, THE LP, THE OPERATING LP AND KFM LLC

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

The Fund was created to acquire and hold units of AT Trust (the “Trust Units”), Series 1 Notes of the Trust (the “Series 1 Trust Notes”) and all of the outstanding shares of Acadian Timber GP Inc. (the “GP”). The Fund makes monthly distributions of its available cash. See “Description of the Fund”.

AT Trust (the “Trust”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust (the “Trust Declaration of Trust”). The Trust was created to acquire and hold Class A LP units of the LP (“Class A LP Units”). See “Description of the Trust”.

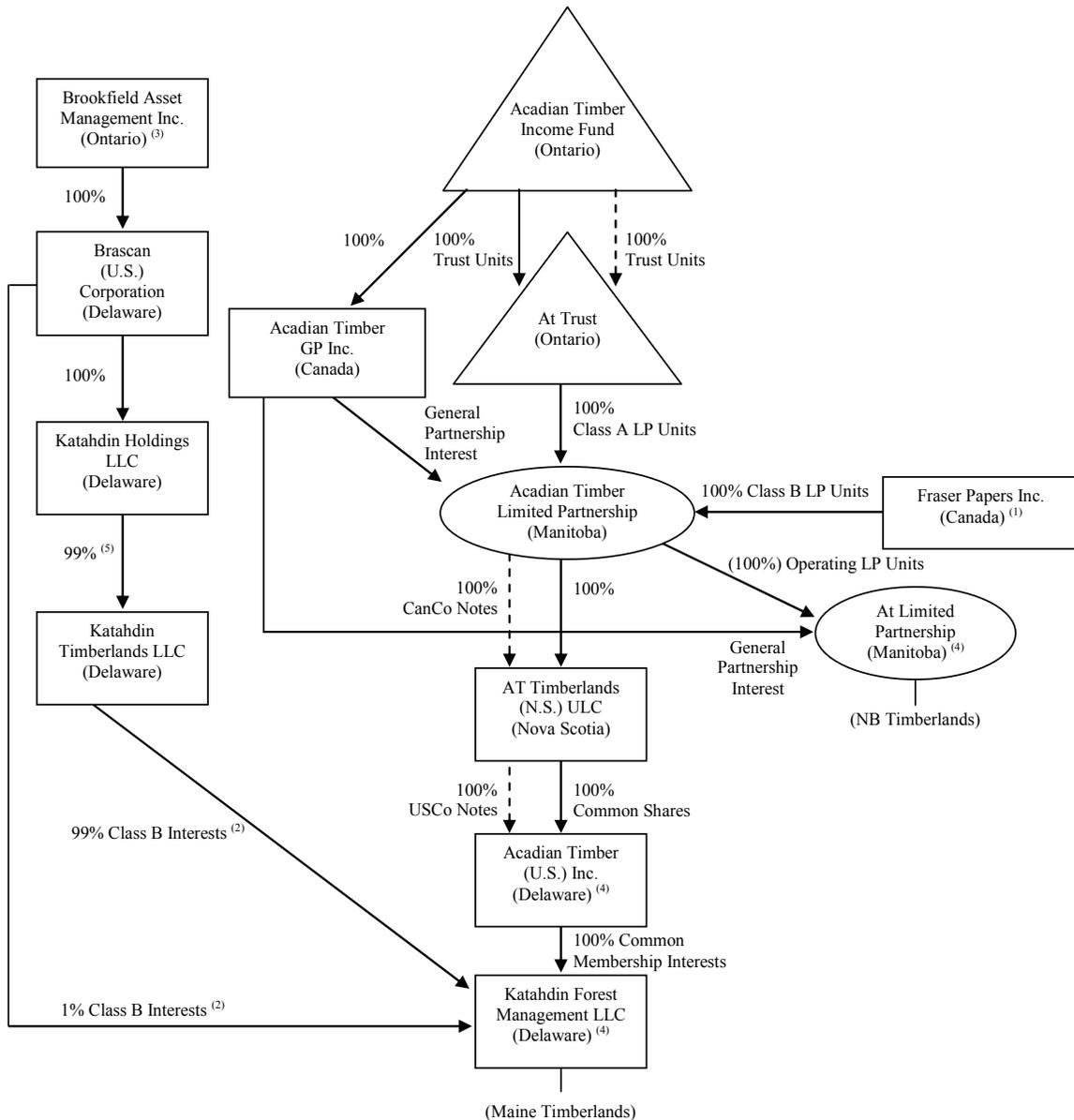
Acadian Timber Limited Partnership (the “LP”) is a limited partnership formed under the laws of the Province of Manitoba. The LP was created to directly or indirectly (i) acquire and hold all of the limited partnership interests (“Operating LP Units”) of the Operating LP, and (ii) hold all of the common membership interests of KFM LLC. Fraser Papers holds all of the issued and outstanding Class B LP Units of the LP, representing in the aggregate, approximately 22% of the outstanding Units on a fully-diluted basis. See “Description of the LP”.

AT Limited Partnership (the “Operating LP”) is a limited partnership formed under the laws of the Province of Manitoba. The Operating LP was formed to (i) acquire the NB Timberlands and the ancillary assets, (ii) enter into the Fibre Supply Agreement, and (iii) enter into the Crown Lands Services Agreement to manage certain Crown lands currently managed by Fraser Papers. See “Description of the Operating LP”.

Katahdin Forest Management LLC (“KFM LLC”) is a limited liability company formed under the laws of Delaware. KFM LLC holds the Maine Timberlands. KTL LLC and Brookfield US hold 4,507,030 Class B Interests (being all of such securities outstanding) of KFM LLC. The holders of the Class B Interests are entitled to receive, as and when declared by the board of managers of KFM LLC, a fixed cumulative preferential cash distribution at a rate equal to the U.S. dollar equivalent on the date of such distribution of the lesser of (i) \$0.075625, being 110% of the initial monthly distribution per Unit, and (ii) the then most recently announced distribution per Unit. Such Class B Interests also entitles the holders to require KFM LLC to convert such Class B Interests into (i) Units (on a one-for-one basis, subject to customary anti-dilution adjustments), representing in the aggregate, an approximate 27% interest in the Fund on a fully-diluted basis, or (ii) at the sole election of KFM LLC, cash equal to the fair market value of those Units (based on a 10 day weighted average trading price) on the date of conversion. See “Description of CanCo, USCo and KFM LLC”.

The principal and head office of the Fund, the Trust, the GP and the LP are located at Suite 200, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3.

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



Notes:

- (1) Fraser Papers holds the outstanding Class B LP Units, which are indirectly exchangeable for 3,613,780 Units (on a one-for-one basis and subject to customary anti-dilution adjustments), representing in the aggregate approximately 22% of the outstanding Units on a fully-diluted basis. See “Principal Agreements – FP Exchange Agreement”.
- (2) Brookfield indirectly holds all of the Class B Interests of KFM LLC which entitle the holder to require KFM LLC to convert such Class B Interests into (i) 4,507,030 Units (on a one-for-one basis and subject to customary anti-dilution adjustments), representing in the aggregate approximately 27% of the outstanding Units of the Fund on a fully-diluted basis, or (ii) at the sole election of KFM LLC, cash equal to the fair market value of the Units on the date of conversion. See “Description of CanCo, USCo and KFM LLC — KFM LLC Class B Interests”
- (3) Brookfield and its affiliates directly hold 406,232 Units of the Fund.
- (4) The Acadian Timberlands are managed by Brookfield Timberland Management LP.
- (5) An affiliate of Brookfield US holds the remaining 1% of KTL LLC.

## DEVELOPMENT OF THE BUSINESS

### Origins of the Business

Acadian Timber Income Fund is a leading supplier of primary forest products to the forest products industry in Eastern Canada and the Northeastern U.S. The Fund manages timberlands in New Brunswick and Maine that have been harvested historically and are now managed jointly by the Fund. The Fund provides services with respect to New Brunswick Crown lands, under Crown Licenses owned by Fraser Paper in the Madawaska and Victoria counties of New Brunswick. It also owns and operates a Tree Nursery in New Brunswick.

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

Acadian owns a newly modernized tree nursery in Second Falls, New Brunswick, which is located on the NB Timberlands. This facility, operating since 1978, was upgraded by Fraser Papers at a cost of \$1.2 million in 2003 and is now equipped with fully automated greenhouses.

### Fund IPO

On January 31, 2006, the following transactions took place:

- (a) The Fund raised \$84.5 million and used the funds along with 3,613,780 Special Voting Units to capitalize the Trust by subscribing for: (i) Series 1 Trust Notes in the aggregate principal amount of approximately \$76.7 million (\$76.9 million if the Over-Allotment Option is not exercised), and (ii) Trust Units for approximately \$7.6 million.
- (b) The Trust used the proceeds from the issuance of the Series 1 Trust Notes and the Trust Units (including 3,613,780 Special Voting Units) to subscribe for Class A LP Units for approximately \$84.5 million.
- (c) The LP borrowed approximately \$42 million under the Credit Facilities.
- (d) The LP used a portion of the funds received by it to subscribe for Class B Units of the Operating LP for approximately \$115.2 million.
- (e) The Operating LP acquired the NB Timberlands and the ancillary assets from Fraser Papers in consideration for (i) a portion of the cash proceeds received by the Operating LP, and (ii) 3,613,780 Class B Units of the Operating LP.
- (f) The Operating LP assumed all of the Fraser Papers employees employed in connection with the NB Timberlands and certain liabilities of Fraser Papers.
- (g) The Class B Units received by Fraser Papers were transferred to the LP in consideration for Class B LP Units and 3,613,780 Special Voting Units.
- (h) The Operating LP and Fraser Papers entered into (i) the Crown Lands Services Agreement, and (ii) the Fibre Supply Agreement.
- (i) The Operating LP joined as a party to the Management Agreement.

- (j) The Fund, the Trust, the GP, the LP, the Operating LP and Fraser Papers entered into the FP Exchange Agreement.
- (k) The LP used the remainder of the funds received by it to (i) subscribe for additional shares of CanCo for approximately \$7.6 million; and (ii) advance funds to CanCo in consideration for a 7.2% promissory note of CanCo in the aggregate principal amount of approximately US\$3.2 million (the “CanCo Note”).
- (l) CanCo used the subscription proceeds to (i) acquire additional shares of USCo for approximately \$7.6 million; and (ii) advance funds to USCo in consideration for a 8% promissory note of USCo in the aggregate principal amount of approximately US\$3.2 million (the “USCo Note”).
- (m) USCo will use the proceeds received by it in paragraph 3 immediately above to acquire common membership interests of KFM LLC from KTL LLC and Brookfield US and to pay its share of the Offering expenses.
- (n) The terms of KTL LLC’s remaining membership interests in KFM LLC were amended and restated to become Class B Interests of KFM LLC.

## **DESCRIPTION OF THE BUSINESS**

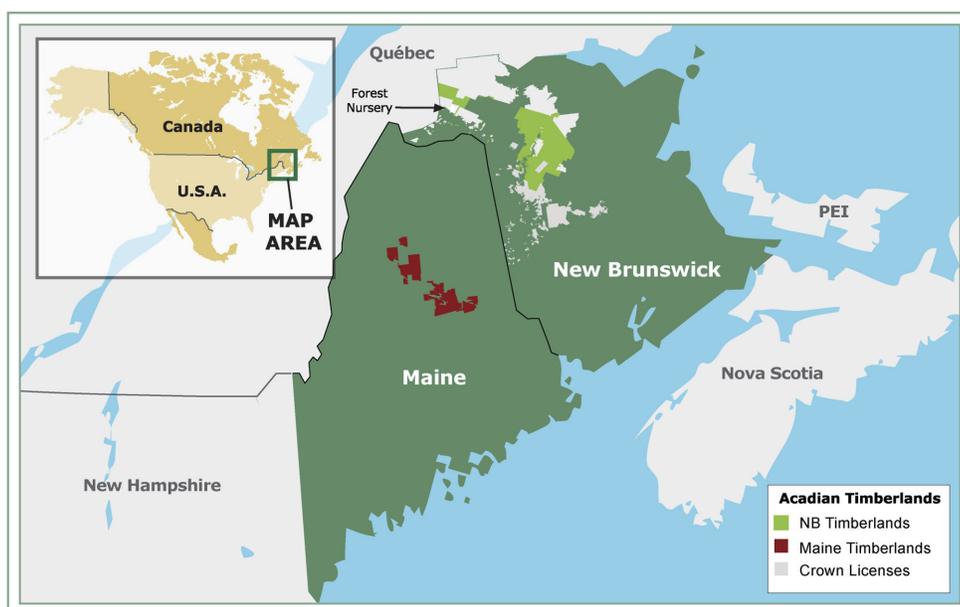
### **Overview of Acadian’s Business**

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

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

Sawlogs and pulpwood from the Acadian Timberlands are sold primarily to customers in Maine and New Brunswick, including to Fraser Papers. 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	311,000 acres <sup>(4)</sup>	1,076,000 acres
Productive Forested Area <sup>(1)</sup> .....	92%	92%	92%
Merchantable Forest Inventory <sup>(2)</sup> .....	17.3 million m <sup>3</sup>	10.4 million m <sup>3</sup>	27.7 million m <sup>3</sup>
Species Mix of Merchantable Forest Inventory .....	51% softwood	70% softwood	58% softwood
	49% hardwood	30% hardwood	42% hardwood
Long Run Sustainable Yield (LRSY).....	651,000 m <sup>3</sup> /year	277,000 m <sup>3</sup> /year	928,000 m <sup>3</sup> /year
Silviculture Treatment Area <sup>(3)</sup> .....	208,000 acres	47,000 acres	255,000 acres
Silviculture Treatment Area (as a percentage of productive forested area).....	30%	16%	26%

---

Notes:

- (1) Productive Forested Area means land excluding roads, wetlands, water and other non-forested areas.
- (2) Merchantable Forest Inventory includes all trees with a diameter greater than 10 cm at a height of 1.4 m from the ground. Management estimates that this represents all trees above approximately 30 years of age.
- (3) Number of acres treated between 1978 and 2004. See “Historical Silviculture Investment”.
- (4) Includes timber owned under perpetual timber deeds covering approximately 9,000 acres, which are held by an affiliate of Brookfield.

### ***Benefits of Freehold Timberlands***

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

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

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

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

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

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

### ***NB Timberlands***

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

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

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

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

The NB Timberlands have approximately 17.3 million m<sup>3</sup> merchantable timber with relatively equal volume of softwood and hardwood, the softwood being comprised primarily of spruce and fir. Excluded from the estimate of merchantable inventory are all trees under approximately 10 cm in diameter measured at a height of 1.4 m from the ground. While these trees form an important component of the future asset base, they are generally under 30 years of age and considered non-merchantable at the time of the estimate. The long run sustainable yield (“LRSY”) represents the level of annual harvest that management estimates can be sustained over an indefinite period, assuming an established silviculture program and normal regrowth. See “Forest Management — Long Run Sustainable Yield — LRSY”. The NB Timberlands have a LRSY of approximately 651,000 m<sup>3</sup> comprised of 60% softwood and 40% hardwood. Species composition differences within Acadian’s inventory and LRSY are due to differing growth rates by species group, the effects of silviculture and harvest activities.

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

**Estimates of Merchantable Forest Inventory and LRSY of NB Timberlands**

<u>Products</u> <u>(thousands m<sup>3</sup>)(1)(2)</u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlogs .....	7,200	1,900	9,100
Pulpwood .....	<u>1,600</u>	<u>6,600</u>	<u>8,200</u>
Total .....	8,800	8,500	17,300
LRSY(3) m <sup>3</sup> .....	390,000	261,000	651,000

Notes:

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

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

contributing to the harvest in 15 to 20 years. Intermediate through over-mature development classes (older than approximately 30 years) contain merchantable inventory. Those in the over-mature class are where harvesting operations are concentrated in the near term. The graph below outlines the current development classification of the forest area on the NB Timberlands.

**Maine Timberlands**

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

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

The Maine Timberlands have a merchantable inventory of approximately 10.4 million m<sup>3</sup>, of which approximately 70% is softwood. Spruce makes up approximately 30% of the total inventory. Hemlock, cedar, red maple and white pine are other significant components of the inventory. Excluded from the estimate of merchantable inventory are all trees under approximately 10 cm in diameter at 1.4 m in height. These trees form an important component of the future asset base, but are considered non-merchantable today. The LRSY of approximately 277,000 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 (thousands m<sup>3</sup>)(1)(2)</u>	<u>Softwood</u>	<u>Hardwood</u>	<u>Total</u>
Sawlog.....	4,100	500	4,600
Pulpwood .....	<u>3,300</u>	<u>2,500</u>	<u>5,800</u>
Total .....	7,400	3,000	10,400
LRSY(3) m <sup>3</sup> .....	217,000	60,000	277,000

Notes:

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

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

## **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 services approximately 1.3 million acres of land managed by Fraser Papers under Crown Licenses, which 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 the 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 257,000 acres of land have been treated between 1978 and 2006, which represents 26% of the total productive forested area.

### ***Experienced Management Team***

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

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

### ***Strong Sponsorship***

Each of Brookfield and Fraser Papers holds a significant indirect investment in Acadian thereby aligning their objectives to those of the Fund. Acadian will benefit from the asset management services provided by the Manager, a wholly-owned subsidiary of Brookfield, and from Fraser Papers' ongoing relationship as the manager and licensee under the Crown Lands Services Agreement. In addition, Fraser Papers will remain a significant purchaser of roundwood under the Fibre Supply Agreements. See "Principal Agreements". Brookfield is a global asset management company that owns or manages more than \$70 billion of assets, focused primarily on property, power and other infrastructure assets. Brookfield has over 40 years experience investing in the timber and forest products industry and manages approximately 2.0 million acres of freehold timberlands in North America and Brazil. Fraser Papers is one of North America's leading integrated producers of specialty paper products with operations in New Brunswick, Maine, New Hampshire and Quebec. Pursuant to the Exclusivity Agreement, Acadian will act as the exclusive vehicle for Brookfield's timberland acquisitions in Eastern Canada and the Northeastern U.S. See "Principal Agreements — Exclusivity Agreement".

### **Acadian's Business Strategy**

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

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

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

*Sustainable harvesting practices:* Management believes that, through a combination of independent third party verification and sophisticated timberland yield management analysis, Acadian harvests at levels consistent with its sustainable forest management plans across its timberland asset base. The NB Timberlands are certified under the

Sustainable Forestry Initiative, which includes measures of assurance for sustainable harvesting compliance. The NB Timberlands are also ISO 14001 certified for environmental management systems, which include means of verifying compliance with environmental standards. Management intends to continue to maintain these practices.

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

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

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

## **Acadian's Operations**

### ***Customers & Marketing***

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

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

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

Lumber and pulp and paper mills, owned or managed by Fraser Papers, represented 39% of total sales from the Acadian Timberlands for the eleven months December 31, 2006. Of the remaining 61% of Acadian Timberlands' total sales, the single largest customer represented 13% of total sales and the top five customers combined represented 28% of total sales. These sales are generally based on six-month to one-year fixed price supply agreements based on fair values negotiated at the time that the contracts are entered into and consistent with industry practices.

### ***Fraser Papers Relationship***

Substantially all of Acadian Timberlands' sales of spruce and fir sawlogs and pulpwood (all of which are softwood species) are directed towards Fraser Papers' owned or managed lumber and pulp and paper mills ("Related Mills"). Approximately 39% of total sales for the eleven months ended December 31, 2006 from the Acadian Timberlands were derived from timber sales to Fraser Papers. Another 3% of those sales were derived from timber sales to KPC LLC.

### ***Pricing***

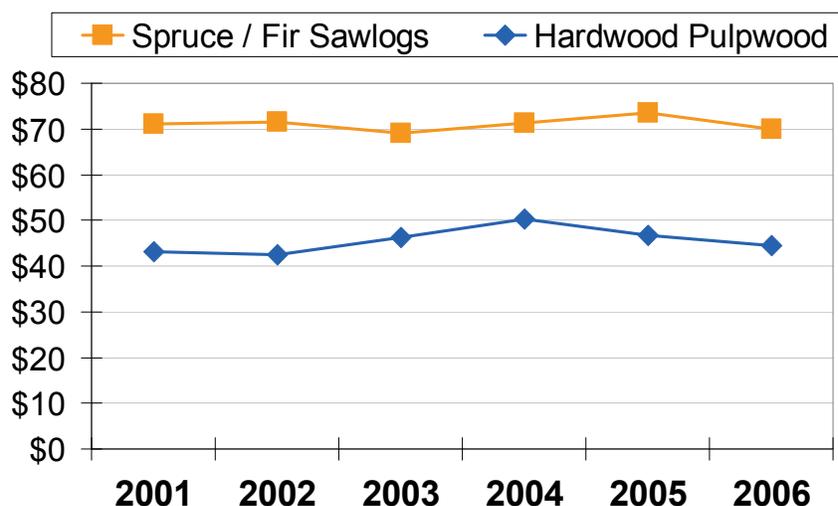
Pricing is determined through direct negotiation with each customer and is, consequently, dependent on species, size, quality, location and other factors. Terms are often flexible and usually remain in place for between six months

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 softwood sawlogs and hardwood pulpwood from the NB Timberlands and the Maine Timberlands. Pricing of softwood sawlogs has been very stable in recent years despite significant changes in the CAN\$/US\$ exchange rate and pricing for finished wood products commodities. This has allowed Acadian to maintain a very stable financial performance.

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

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



Note:

- (1) Pricing for Maine has been converted using a conversion rate based on the average of the exchange rates on the last business day of each calendar month during the applicable year.
- (2) Pricing for Maine in 2003 reflects the period from April 29, 2003 to December 31, 2003.

***Crown Lands Services***

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

The Crown licences are administered with 25-year evergreen forest management agreements between the Government of New Brunswick and the Crown licencees. The Crown licences 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 licence extension every five years. Royalties are collected from the Crown licencees based on established government rates, which are set every year. The current five-year plans in New Brunswick expire in March, 2007 and management expects that the current allowable annual cut (“AAC”) on Crown lands will be maintained for the ensuing 2007-2012 period, consistent with Government intentions as stated in a June 2005 Report from the New Brunswick Ministry of National Resources (*source: The New Brunswick Public Forest — Our Shared Future, Natural Resources, June 2005*). 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, which accounts for the historical decrease in AAC over time.

Fraser Papers is the Crown Licensee of New Brunswick Crown Licenses #9 and #10 (the “Crown Licenses”), which are located in the northern region of New Brunswick in the counties of Madawaska, Restigouche, Victoria, Carleton, York and Northumberland.

### Crown Licenses

<u>Crown License</u>	<u>Total Area (Acres)</u>	<u>Allowable Annual Cut 2002-2007 (m<sup>3</sup>)</u>	<u>Assigned Fraser Papers Mill</u>	<u>% of AAC for Fraser Papers’ Use</u>	<u>% of AAC Sub-licenced</u>
#9.....	323,000	257,000	Juniper	43%	57%
#10.....	990,000	1,059,000	Plaster Rock, Juniper, Edmundston	11%	89%
Total .....	<u>1,313,000</u>	<u>1,316,000</u>		<u>17%</u>	<u>83%</u>

Acadian provides various services related to approximately 1.3 million acres of Crown Lands subject to the Crown Licenses in the Province of New Brunswick at the direction of Fraser Papers and in a manner consistent with the way that the Crown Licenses have been managed by Fraser Papers for over 20 years. Fraser Papers has entered into the Crown Lands Services Agreement with Acadian for a term consistent with the term of the Crown Licenses held by Fraser Papers, whereby Acadian will provide various administrative and operating services to assist Fraser Papers in managing the Crown Licenses. Under the terms of this agreement, Fraser Papers continues to collect fees pursuant to licensing arrangements and pays fees to Acadian in consideration for the services provided under this agreement. See “Principal Agreements — Crown Lands Services Agreement”.

#### ***Crown License Activities***

Forest management planning activities are the responsibility of the Crown licencees. The Operating LP is engaged by Fraser Papers under the Crown Lands Services Agreement to prepare a Forest Management Plan for approval by Fraser Papers and the Government of New Brunswick, which will then approve the AAC in respect of such Crown Lands. In addition, the Operating LP will perform silviculture activities for Fraser Papers over the licenced area and the construction and maintenance of all main roads on the Crown Lands; however, sub-licencees on these lands build and maintain their own 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 (i) royalty fee (stumpage fee in \$/m<sup>3</sup> paid to the Government which varies based on species type), and a (ii) levy fee (fee in \$/m<sup>3</sup> paid to the Government for silviculture spending which differs for softwood and hardwood). The Operating LP also charges Fraser Papers 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 on approximately 17% of the Crown Lands for Fraser Papers in consideration for cost recovery and service fees.

Approximately 83% of the Crown Lands are sublicensed by Fraser Papers to third parties (“Sub-licences”) 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, Crown Lands provide the Operating LP with the ability to leverage the Operating LP’s fixed cost platform across a larger operation, thereby yielding economies of scale. Such fixed costs, which are material to forest harvesting operations, include the operation of geographic information systems and personnel involved in forest management strategies.

### ***Forest Nursery***

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

Acadian’s forest management activities require approximately two million seedlings per year to fulfill its regeneration plans. 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 with other 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 80% of NB Timberlands’ softwood and approximately 20% of its hardwood. Between 25 to 47 contractors throughout the year are employed in New Brunswick to harvest the remaining softwood and hardwood, as well as to execute all trucking, road construction and silviculture activities. Both owner-operators and contractors own all of the harvesting equipment directly. In Maine, Acadian’s harvesting, trucking, road building and silviculture activities are performed exclusively by contractors. Acadian employs four to seven contractors in Maine.

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

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

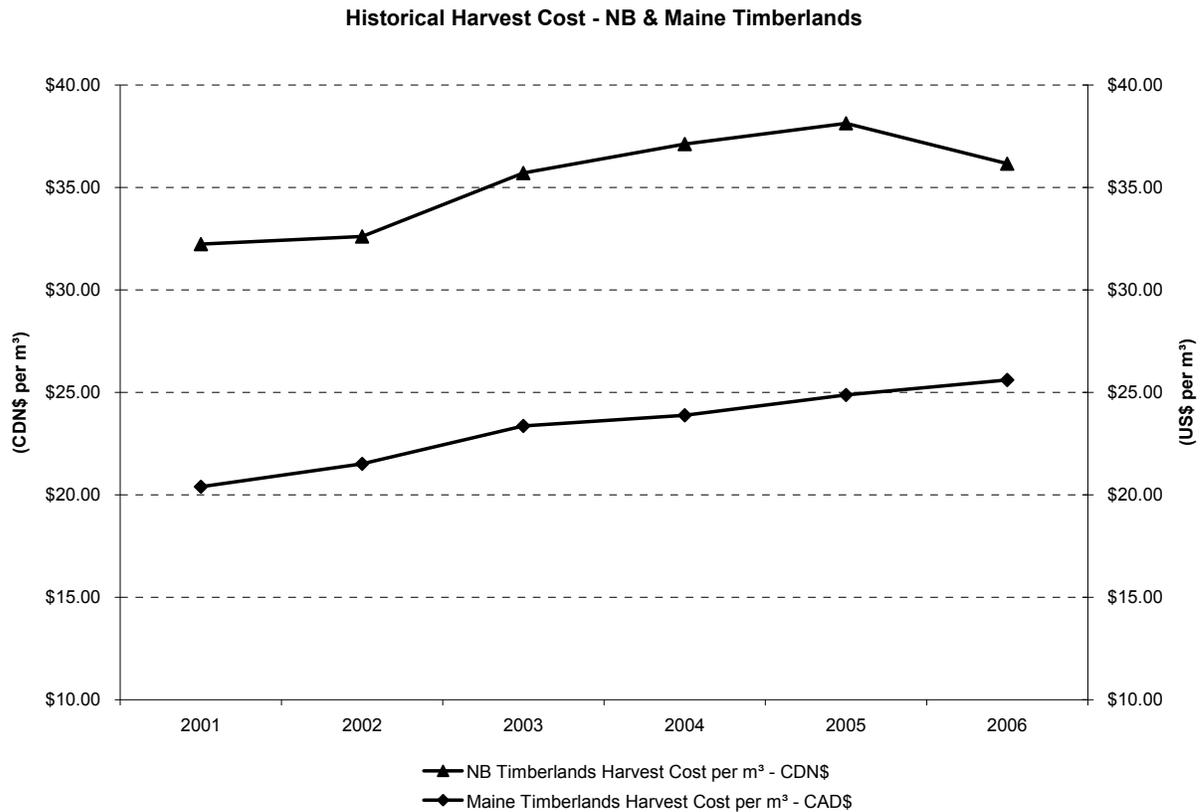
The harvesting equipment used by Acadian’s contractors includes various large hydraulic-powered loaders, earth-movers, harvesters and haulers. After a plot of land is identified for harvesting, roads are constructed in order to provide access to the site. Once road access is available, trees are harvested 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 and used as road building materials or are piled for transportation to biomass-fired power plants.

The roundwood is hauled to either a mill or sorting yard where the wood is weighed. Depending on the nature of the supply contract, wood is weighed either on scales operated by Acadian or by the purchaser. All logging trucks require a hauling trip ticket before entering Acadian's road network and these trip tickets are used to reconcile all 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 five year history of the combined harvesting and transportation costs from the NB Timberlands and the Maine Timberlands. Management has been able to work with its contractor base to improve efficiencies and to stabilize the NB Timberlands' unit costs since 2003 in spite of rising fuel costs. The Maine Timberlands costs have risen primarily in response to increased fuel costs, which contractors have not absorbed.



---

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 174 employees as at December 31, 2006. Acadian's New Brunswick Timberlands successfully renegotiated a favourable labour agreement with Local 114 during the second quarter of 2006, following the agreement with Local 15N during the fall of 2005. Together, these two agreements provide Acadian with labour certainty through 2010. Fraser Papers, the predecessor employer, had a positive labour relations history with these unions and had no strikes or lockouts during the past 11 years.

### ***Seasonality***

Acadian's business is seasonal. Harvesting activity is highest during the winter months with a significant decrease in activity during the spring. This seasonality is driven by road and ground conditions. During the winter months, the frozen ground provides a solid base for the harvesting and hauling equipment. During the spring, muddy and soft ground conditions lead to reduced activity and low harvest levels. As the ground dries in the early summer, harvesting activity resumes and is consistent during the summer and fall. Working capital requirements are highest during the first quarter and lowest at the end of the second quarter. While customers accept wood deliveries year round, most customers match their buying patterns to the harvesting patterns and purchase significant wood inventories while the ground is frozen during the winter months.

### ***Capital Expenditures***

A significant portion of Acadian's annual capital expenditures is for silviculture investments relating to planting, pre-commercial thinning 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 eleven months ended December 31, 2006 were denominated in U.S. dollars. Approximately 90% of the net sales for the eleven months ended December 31, 2006 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, Bowater and J.M. Huber Corporation. Management believes that Acadian may also be subject to increased import competition from worldwide suppliers of forest products.

## ***Health and Safety***

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

## **Forest Management**

### ***Forest Management Strategy***

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

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

### ***Forest Inventory Assessment***

Management estimates its merchantable forest inventory (currently at 27.7 million m<sup>3</sup>) based upon independently and internally measured ground sample plots and forest cover type information. The NB Timberlands merchantable inventory volume was determined based on a report prepared in 2004 by Forest Resource Consultants. The inventory of the Maine Timberlands was determined based on a report prepared by James W. Sewall Company in 2001. Management believes that its merchantable forest inventory estimates continue to be consistent with current inventory levels. Forest inventories are typically updated every 10 to 12 years.

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

### ***Long Run Sustainable Yield — LRSY***

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

computer model to make 80-year harvest forecasts. The combined LRSY from the NB Timberlands and the Maine Timberlands is estimated at approximately 928,000 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 domination of hardwood stands in areas that previously consisted of softwood species. Management's estimate of the LRSY for the NB Timberlands takes into account a harvesting strategy implemented in the 1990's to reduce the volumes of hardwood pulpwood in the forest and to encourage the growth of higher value hardwood sawlogs and softwood species. As a result of this strategy, in recent years, harvesting levels of hardwood pulpwood on the NB Timberlands has been significantly higher than its LRSY and management expects that the current harvest levels for hardwood pulpwood will continue to exceed the long run sustainable levels until approximately 2016, albeit at a lower rate than in recent years. Hardwood pulpwood is a relatively low-value product, among the products harvested from the NB Timberlands, and is currently harvested with a very low direct margin contribution. Management believes that the implementation of improvements in hardwood stands over the last decade and the next 10 years will create increased value in the hardwood stands on the NB Timberlands and will offset the financial impact of lower hardwood pulpwood harvest volumes in the future.

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

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

<u>Species</u>	<u>Actual Harvest (m<sup>3</sup>/year)</u>				<u>Projected Harvested Levels (m<sup>3</sup>/year)</u>			<u>LRSY (m<sup>3</sup>/year)</u>
	<u>2003</u>	<u>2004</u>	<u>2005(3)</u>	<u>2006(3)</u>	<u>2007-10</u>	<u>2011-15</u>	<u>2016-20</u>	
Softwood ...	461,000	393,000	337,800	321,200	397,000	390,000	390,000	390,000
Hardwood ..	483,000	530,000	533,900	439,600	390,000	330,000	261,000	261,000
Totals .....	944,000	923,000	871,700	760,800	787,000	720,000	651,000	651,000

Notes:

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

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

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

**Harvest Levels and LRSY for Maine Timberlands(1)(2)**

<u>Species</u>	<u>Actual Harvest (m<sup>3</sup>/year)</u>				<u>2007-2020 Projected Harvest Levels (m<sup>3</sup>/year)</u>	<u>LRSY (m<sup>3</sup>/year)</u>
	<u>2003</u>	<u>2004</u>	<u>2005(2)</u>	<u>2006(2)</u>		
Softwood...	175,000	227,000	197,500	204,600	217,000	217,000
Hardwood .	<u>82,000</u>	<u>54,000</u>	<u>55,100</u>	<u>70,900</u>	<u>65,000</u>	<u>60,000</u>
Total.....	<u>257,000</u>	<u>281,000</u>	<u>252,600</u>	<u>275,500</u>	<u>282,000</u>	<u>277,000</u>

Notes:

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

***Silviculture Investment***

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

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

**Area of Silviculture Treatments between 1978 and 2006**

<u>Silviculture Activity</u>	<u>NB Timberlands</u>	<u>Maine Timberlands</u>
	<u>(In acres, except percentages)</u>	
Planting.....	127,000	14,500
Pre-commercial thinning .....	40,500	4,000
Softwood release .....	<u>42,000</u>	<u>29,000</u>
Total silviculture treatment area .....	<u>209,500</u>	<u>47,500</u>
Total silviculture treatment area as a percentage of productive forested area .....	30%	17%

***Forest Certification***

Acadian’s forest planning and operations for the NB Timberlands and Fraser Papers’ management of the Crown Licenses have been third-party certified since 2000 by the Quality Management Institute under the ISO 14001 standard for environmental management systems and the American Forest and Papers Association Sustainable Forestry Initiative (SFI(sm)). Third party sustainable forestry surveillance audits are conducted annually and full re-registration audits occur every three years. Third party certifications provide the general public, Acadian’s customers and environmental groups with knowledge that the assets are well managed in accordance with industry best practice. The SFI program is a comprehensive system of principles, objectives and performance measures

developed by foresters, conservationists and scientists, designed to assure the sustainability of forests for current and future generations. This standard includes requirements for the protection of wildlife, plants, soil and water quality.

### ***Forest Protection***

The Acadian Timberlands are protected from insects, disease and fire through co-operative efforts amongst other large landowners and Provincial and State agencies. In New Brunswick, the government is the lead agency for forest protection efforts. The cooperative efforts have led to the formation of Forest Protection Limited. Forest Protection Limited provides surveillance and direct action in the event of a fire or infestation, and is funded by the Government of New Brunswick and Crown licences. 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*. Crown licences who own freehold lands must be prepared to present management plans that are comparable to Crown land plans at the request of the Government. As such, Acadian manages its freehold timberlands consistent with the management principles that Fraser Papers' employs for its Crown Lands.

### ***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 Nature Conservancy 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 has 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.

## **DESCRIPTION OF THE FUND**

### **General**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. It is intended that the Fund will qualify as a "unit trust" and a "mutual fund trust" for the purposes of the Tax Act, although the Fund is not a mutual fund under applicable securities laws. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference is made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions. See "Material Contracts".

### **Activities of the Fund**

The Fund Declaration of Trust provides that the activities of the Fund are restricted to:

- (i) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of the Trust and the GP and other corporations, partnerships, trusts or other persons engaged, directly or indirectly, in the business of operating or managing timberlands, as well as activities ancillary thereto, and such other investments as the Trustees may determine;
- (ii) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of any of the Trust, or the GP, the LP or any of their respective subsidiaries or KFM LLC in connection with the Fund's obligations under the Support and Registration Rights Agreement or any other entity determined by the Trustees;
- (iii) temporarily holding cash in interest bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to Unitholders;
- (iv) issuing Units, Special Voting Units and other securities of the Fund (including securities convertible or exchangeable into Units, Special Voting Units or warrants, options or other rights to acquire Units, Special Voting Units or other securities of the Fund): (a) for obtaining funds to conduct the activities of the Fund, including raising funds for acquisitions and development; (b) in satisfaction of any non-cash distribution; (c) pursuant to any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, the Trust, the GP or the LP or any of their respective subsidiaries; or (d) under the Support and Registration Rights Agreement;

- (v) issuing debt securities (including debt securities convertible into, or exchangeable for, Units or other securities of the Fund) or otherwise borrowing or guaranteeing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (vi) disposing of any part of the assets of the Fund;
- (vii) issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (viii) repurchasing and redeeming securities issued by the Fund, subject to the provisions of the Fund Declaration of Trust and applicable laws;
- (ix) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (x) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided the Fund will not undertake any activity, take any action, omit to take any action or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act.

### **Units and Special Voting Units**

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

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

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

### **Issuance of Units**

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash

distribution, except where tax was required to be withheld in respect of the Unitholder's share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

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

## **Trustees**

The Fund will have a minimum of three Trustees and a maximum of 10 Trustees, the majority of who must be residents of Canada (within the meaning of the Tax Act). The board of the Fund is comprised of 5 Trustees, 3 of whom are independent. The nominees for election of the Trustees in the proxy related materials sent to Voting Unitholders will be determined by the compensation, nominating and corporate governance committee of the Fund.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and will supervise the investments and conduct the affairs of the Fund. Subject to such terms and conditions, the Trustees are responsible for, among other things:

- supervising the activities and managing the investments and affairs of the Fund;
- acting for, voting on behalf of and representing the Fund as a holder of the Trust Units, Trust Notes and other securities of the Trust and the shares of the GP;
- maintaining records and providing reports to Unitholders;
- effecting payments of distributable cash from the Fund to Unitholders; and
- voting in favour of the Fund's nominees to serve as trustees of the Trust.

Any Trustee may resign upon 30 days written notice to the Fund, unless such resignation would cause the number of remaining Trustees to be less than a quorum, and may be removed by a resolution passed by a majority of the votes cast at a meeting of the Voting Unitholders ("Ordinary Resolution") and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Trustees.

Trustees will be appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting. A quorum of the Trustees, being the majority of the Trustees then holding office (provided a majority of the Trustees comprising such quorum are residents of Canada), may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Voting Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Voting Unitholder may call the meeting. Except as otherwise provided in the Fund Declaration of Trust, the Trustees may, between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

The Fund Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the exercise of the Trustee's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all the Voting Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful.

## **Distributions**

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

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

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

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

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

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

## Redemption at the Option of Unitholders

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

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

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

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

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

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

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

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

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

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

### **Repurchase of Units**

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

### **Meetings of Voting Unitholders**

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

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

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

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

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

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

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

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

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

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

### **Limitation on Non-Resident Ownership**

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

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

On October 31, 2006, the Minister of Finance (Canada) announced the “Tax Fairness Plan” and tabled a Notice of Ways and Means Motion that proposes to significantly change the income tax treatment of most publicly traded trusts and partnerships (other than certain real estate investment trusts) and the distributions and allocations, as the case may be, from these entities to their investors. The proposals were released in draft legislative form on December 21, 2006. Under the proposals, certain income earned by these entities will be taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made by these entities to investors will be taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend will be eligible for the new enhanced dividend tax credit if paid or allocated to a resident of Canada. These proposals will be effective for the 2007 taxation year for trusts and partnerships that commenced public trading after October 31, 2006, but will generally be delayed until the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, such as the Fund. However, the deferral until 2011 may be rescinded where the affected entity does not comply with the Department of Finance’s “normal growth” guidelines.

The Fund is currently considering these proposals and the guidelines and the possible impact they will have on the Fund and its investors. However, these proposals are not expected to have an immediate impact on the Fund’s tax treatment or distribution policy or the tax treatment of distributions to investors. Until the final legislation implementing the proposed changes is introduced, the exact impact of the changes to the Fund is unknown.

## **Amendments to the Fund Declaration of Trust**

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

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

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

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

## **Term of the Fund**

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

## **Take-over Bids**

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (including Units that may be acquired on the exchange of any Class B LP Units or the exercise of the conversion rights in respect of the Class B Interests of KFM LLC, but excluding Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

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

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

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, the GP, the LP, the Operating LP or KFM LLC or any of their respective subsidiaries except in conjunction with an internal reorganization or good faith pledges or mortgages in the ordinary course of business or in connection with permitted guarantees of the Trust, the GP, the LP, the Operating LP or KFM LLC as applicable, or permitted charge, pledge or lien;
- any amalgamation, arrangement or other merger of the Trust, the GP, the LP, the Operating LP or KFM LLC or any of their respective subsidiaries with any other entity, except in conjunction with an internal reorganization;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Notes to the Fund that are identical in all respects to the Notes issued in connection with the Offering or in conjunction with an internal reorganization;
- the winding-up or dissolution of the Trust, the GP, the LP, the Operating LP or KFM LLC prior to the end of the term of the Fund other than pursuant to an internal reorganization; or
- any material amendment to the constating documents of the Trust, the GP, the LP or KFM LLC to change the authorized units, share capital or partnership interests which would be prejudicial to the Fund,

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

## **Information and Reports**

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

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

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

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

securities regulatory authorities in each of the provinces of Canada and delivery to the Fund's registered and beneficial Voting Unitholders in accordance with applicable securities laws.

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

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

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

Trustees of the Fund, the Trust's trustees and directors and officers of subsidiaries of the Fund, including the GP, as well as the directors and officers of the Manager, will be required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units and LP Units and Class B Interests of KFM LLC.

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

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

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

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

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

### **Conflicts of Interest Restrictions and Provisions**

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

### **Rights of Unitholders**

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

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

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

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

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

### **Financial Year End**

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

## **DESCRIPTION OF THE TRUST**

### **General**

The Trust is an unincorporated open-ended limited purpose trust established on January 31, 2006 under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust. It is a limited purpose trust and its activities are restricted essentially to holding investments in the LP and such other investments as the trustee of the Trust (the "Trust's Trustees") may determine, including all activities ancillary or incidental thereto.

The Trust Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. The principal differences between the Trust Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of the Trust Declaration of Trust and the Fund Declaration of Trust.

### **Restrictions on Trust's Trustees' Powers**

The Trust Declaration of Trust provides that the Trust's Trustees may not, without approval by ordinary resolution of the holders of Trust Units:

- (i) take any action upon any matter which, under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules, would require approval by ordinary resolution of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading; and
- (ii) subject to certain exceptions, appoint or change the auditors of the Trust.

Furthermore, the Trust Declaration of Trust states that the Trust's Trustees may not, without approval by special resolution of the holders of Trust Units:

- (i) take any action upon any matter which, under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules, would require approval by special resolution or super majority (as defined or described therein) of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading;
- (ii) amend the Trust Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without consent of Unitholders;

- (iii) amend the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes;
- (iv) sell, lease or exchange all or substantially all of the property of the Trust other than in the ordinary course of business or in connection with an internal reorganization;
- (v) authorize the termination, liquidation or winding-up of the Trust, other than at the end of the term of the Trust; or
- (vi) authorize the combination, merger or similar transaction of the Trust with any other person, except in conjunction with an internal reorganization.

### **Redemption Right**

The Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust's Trustees, together with the certificates representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption is equal to:

$$\frac{(A \times B) - C + D}{E}$$

Where:

A = the cash redemption price per Unit calculated as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;

B = the aggregate number of Units outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;

C = the aggregate unpaid principal amount of the Series 1 Trust Notes and accrued interest thereon and any other indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units, Trust Notes or any other indebtedness of the Trust held by or owed to the Fund) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;

D = the aggregate unpaid liabilities of the Fund (prior to the redemption of Units for such date) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder; and

E = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder.

The Trust's Trustees will also be entitled to call for redemption, from time to time and at any time, all or part of the outstanding Trust Units registered in the name of the holders thereof (other than the Fund) at the same redemption price as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust's Trustees approved the redemption of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust's Trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such aggregate amount of Series 2 Trust Notes as is equal to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$100, with the balance of any such aggregate redemption price not paid in Series 2 Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of

funds and Series 2 Trust Notes as the Trust's Trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100.

## **Distributions**

The Trust makes monthly cash distributions of its distributable cash. The amount of cash distributed monthly per Trust Unit to the Trust Unitholders is equal to a *pro rata* share of distributions on or in respect of the Class A LP Units owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust received in such period, less amounts which are paid, payable, incurred or provided for in such period in connection with: (i) administrative expenses and other obligations of the Trust; (ii) amounts that may be paid by the Trust in connection with any cash redemptions or repurchases of Trust Units or repayments of the Trust Notes; (iii) satisfaction of its debt service obligations (principal and interest) on the Trust Notes and other indebtedness, if any; and (iv) any amount that the Trust's Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Trust, that have been or are reasonably expected to be incurred in the activities and operations of the Trust (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of the Trust).

Such distributions will be payable to holders of record of Trust Units on the last business day of each month and will be paid within 15 days following each month end. The cash distributions payable by the Trust are intended to be received by the Fund prior to its related cash distribution to Unitholders.

The distribution declared by the Trust's Trustees in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year.

Any income of the Trust which is unavailable for cash distribution will, to the extent necessary to ensure that the Trust does not have any income tax liability under Part I of the Tax Act, be distributed to the Trust Unitholders in the form of additional Trust Units. The value of each Trust Unit so issued is equal to the redemption price thereof. The Trust Declaration of Trust provides that immediately after any *pro rata* distribution of Trust Units in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each holder of Trust Units will hold after consolidation the same number of Trust Units as the holder held before the non-cash distribution.

## **Trust Notes**

The following is a summary of the material attributes and characteristics of the Trust Notes which are issued by the Trust under the Trust Note Indenture. This summary is qualified in its entirety by reference to the provisions of the Trust Note Indenture, which contains a complete statement of those attributes and characteristics.

Trust Notes are issuable in Canadian currency. Trust Notes are issuable in denominations of \$100 and integral multiples of \$100. No Trust Notes in integral multiples of less than \$100 will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. The Trust issued approximately \$76.7 million principal amount of Series 1 Trust Notes to the Fund on January 31, 2006.

Series 2 Trust Notes are reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units, as the Trust's Trustees may decide or, in certain circumstances, be obliged to issue. Series 3 Trust Notes are reserved by the Trust to be issued exclusively as full or partial payment of the redemption price for Series 1 Trust Notes.

### ***Interest and Maturity***

The Series 1 Trust Notes are payable on demand, mature on the 25th anniversary of the date of issuance and bear interest at a rate of 3% per annum, payable on the 15th day of each calendar month that such Series 1 Trust Notes are outstanding. Each Series 2 Trust Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 2 Trust Note is outstanding. Each Series 3 Trust Note will mature on the same date as the Series 1 Trust Notes and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable on the 15th day of each calendar month that such Series 3 Trust Note is outstanding.

### ***Payment upon Maturity***

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Trust Note Indenture, in cash, an amount equal to the principal amount of the outstanding Trust Notes that have then matured, together with accrued and unpaid interest thereon.

### ***Redemption***

The Trust Notes are redeemable in whole or in part (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash or, in the case of a redemption of Series 1 Trust Notes on an *in specie* payment of the Redemption Price of Units, in Series 3 Trust Notes) at the option of the Trust prior to maturity.

### ***Subordination***

Payment of the principal amount and interest on the Trust Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Trust Note Indenture. The Trust Note Indenture provides that upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness is entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

### ***Default***

The Trust Note Indenture provides that any of the following shall constitute an event of default:

- (i) default in payment of the principal amount of the Trust Notes when the same becomes due and payable and the continuation of such default for a period of 90 days;
- (ii) default in payment of any interest due on any Trust Notes and continuation of such default for a period of 90 days;
- (iii) default in the observance or performance of any other covenant or condition of the Trust Note Indenture and continuance of such default for a period of 90 days after notice in writing has been given to the Trust's Trustees specifying such default and requiring the Trust to rectify the same; and
- (iv) certain events of dissolution, bankruptcy, insolvency, liquidation, reorganization or other similar proceedings relative to the Trust.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public.

## **Trust Unit Certificates**

As Trust Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Trust Units will not be made through the Book-Entry System administered by CDS. Rather, holders of Trust Units will be entitled to receive certificates therefor.

## **Meetings of Unitholders**

An annual meeting of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust's Trustees may determine or as may properly be brought before the meeting.

## **DESCRIPTION OF THE LP**

### **General**

The LP is a limited partnership established under the laws of the Province of Manitoba. The general partner of the LP is the GP. The sole limited partner of the LP is the Trust. The LP is also a limited partner of the Operating LP.

The following is a summary of the material attributes and characteristics of the LP and the LP Units issued under the LP Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the LP Partnership Agreement, which contains a complete statement of those attributes and characteristics.

### **Capitalization**

The LP may issue an unlimited number of Class A LP Units and Class B LP Units to any person. The LP Partnership Agreement authorizes the GP to cause the LP to issue additional Class A LP Units or Class B LP Units for any consideration and on any terms and conditions as are established by the GP.

Class A LP Units are issued to the Trust, and Class B LP Units are issued to Fraser Papers. Class B LP Units are indirectly exchangeable into Units. Fraser Papers holds 3,613,780 Class B LP Units (being all of such securities outstanding), representing in the aggregate, and after giving effect to the exchange of the Class B LP Units for Units and the conversion of the Class B Interests for Units, approximately 22% of the issued and outstanding Units on a fully-diluted basis. Class A LP Units and Class B LP Units will rank equally on a dissolution, liquidation or winding-up of the LP. Each Class A LP Unit entitles the holder thereof to one vote at meetings of holders of the LP Units. Class B LP Units do not entitle holders thereof to vote at meetings of holders of the LP Units except in certain limited circumstances in which the rights of holders of Class B LP Units are affected. Additionally, Class B LP Units are accompanied by Special Voting Units that will entitle the holder to receive notice of, attend and vote at all meetings of Voting Unitholders of the Fund (except in respect of LP Units previously exchanged).

### **Distributions**

The Class A LP Units and Class B LP Units have economic rights that are equivalent in all material respects except as set forth below.

The LP will distribute to limited partners of record holding Class A LP Units on the last day of each month, their *pro rata* portions of distributable cash as set out below. The LP will distribute to limited partners of record holding Class B LP Units on the last day of each month, an amount per Class B LP Unit equal to the distributions per Unit in respect of the same monthly period to be paid upon the Units. Distributions will be made within 15 days following the end of each month. The LP may, in addition, make a distribution on the Class A LP Units at any other time.

Distributable cash for a monthly period will consist, in general, of its available cash for the particular monthly period less any estimated cash amounts required for debt service obligations, other expense obligations, capital expenditures, taxes, long term incentive awards and other incentive amounts, reserves (including amounts on

account of capital expenditures, and reserves to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate by the GP. Capital and other expenditures, including amounts required to enable the LP to pay equal monthly distributions based on expected annual cash distributions, may also be financed with drawings under the Credit Facilities, other borrowings or additional issuances of securities.

Notwithstanding any other provision governing distributions on the LP Units, other than the distribution declared in respect of the month ending December 31 in each year, the LP will not distribute, in any period, an amount equal to the positive difference (if any) between (i) the distributable cash of the LP (on a consolidated basis) earned in such period, which would be distributed indirectly to the holders of the Class B Interests if all such interests were converted into Units immediately prior to the record date for the distribution by the Fund in respect of such period, less (ii) the distribution that would otherwise be paid to the holders of the Class B Interests in such period if none of such interests were so converted. For greater clarity, any amount not distributed pursuant to the foregoing in respect of any period, may be distributed in any following period to the extent such amount is determined to constitute distributable cash in such period.

### **Allocation of Earnings and Losses**

The income or loss for tax purposes of the LP for a particular fiscal year generally is allocated to each partner in an amount calculated by multiplying the total income or loss for tax purposes to be allocated to the partners by a fraction, the numerator of which is the sum of the cash distributions or advances received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions or advances made by the LP to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed or advanced by the LP to that partner.

Income and loss of the LP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

The fiscal year end of the LP is December 31.

### **Limited Liability**

The LP operates in a manner as to ensure to the greatest extent possible the limited liability of the Trust as a limited partner. The Trust may lose its limited liability in certain circumstances. If limited liability is lost by reason of the negligence of the GP in performing its duties and obligations under the LP Partnership Agreement, the GP has agreed to indemnify the Trust against all claims arising from assertions that its liability is not limited as intended by the LP Partnership Agreement. However, since the GP has no significant assets or financial resources, this indemnity may have nominal value.

### **Transfer of LP Units**

The Class A LP Units are transferable subject to compliance with applicable securities restrictions, provided that non-residents of Canada (and partnerships that are not Canadian partnerships within the meaning of the Tax Act) may not acquire or hold a Class A LP Unit. A Class A LP Unit is not transferable in part, and no transfer of a Class A LP Unit will be accepted by the GP, unless a transfer form in a form approved by the LP, duly completed and signed by the registered holder of the Class A LP Unit and the transferee, has been remitted to the registrar and transfer agent of the LP. A transferee of a Class A LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the LP Partnership Agreement on the date on which the transfer is recorded.

The Class B LP Units are not transferable, except pursuant to an exchange of a Class B LP Unit for Units in accordance with the terms of the FP Exchange Agreement.

## **Amendment**

The LP Partnership Agreement may be amended with the prior consent of the holders of at least 66 2/3% of the LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding more than 66 2/3% of the LP Units entitled to vote at a duly constituted meeting (a “Partnership Special Resolution”), except for certain amendments, which require unanimous approval of holders of LP Units, including: (i) altering the ability of the limited partners to remove the GP involuntarily; (ii) changing the liability of any limited partner; (iii) changing the right of a limited partner to vote at any meeting; or (iv) changing the LP from a limited partnership to a general partnership.

Notwithstanding the foregoing,

- no amendment which would adversely affect the rights and obligations of the GP, as general partner, may be made without its consent;
- no amendment which would adversely affect the rights and obligations of any particular partner without similarly affecting the rights and obligations of all other partners may be made without the consent of that partner; and
- the GP may make amendments to the LP Partnership Agreement to reflect: (i) a change in the name of the LP or the location of the principal place of business of the LP or the registered office of the LP; (ii) a change in the governing law of the LP to any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the LP Partnership Agreement; (iv) a change that, as determined by the GP, is reasonable and necessary or appropriate to qualify or continue the qualification of the LP as a limited partnership in which the limited partners have limited liability under applicable laws; (v) a change that, as determined by the GP, is reasonable and necessary or appropriate to enable the LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the LP Partnership Agreement which may be defective or inconsistent with any other provision contained in the LP Partnership Agreement or which should be made to make the LP Partnership Agreement consistent with the disclosure set out in this Annual Information Form.

## **Meetings**

The GP may call meetings of partners and is required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding LP Units. A quorum at a meeting of partners consists of one or more partners present in person or by proxy.

## **DESCRIPTION OF THE OPERATING LP**

### **General**

The Operating LP is a limited partnership established under the laws of the Province of Manitoba. The general partner of the Operating LP is the GP. The LP will be the sole limited partner of the Operating LP.

The following is a summary of the material attributes and characteristics of the Operating LP and the Operating LP Units issued under the Operating LP Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Operating LP Partnership Agreement, which contains a complete statement of those attributes and characteristics.

## **Capitalization**

The Operating LP may issue an unlimited number of Class A Units and Class B Units to any person. The Operating LP Partnership Agreement authorizes the GP to cause the Operating LP to issue additional Class A Units or Class B Units for any consideration and on any terms and conditions as are established by the GP.

Class A Units and Class B Units were issued to the LP, and Class B Units were issued to Fraser Papers and were immediately thereafter exchanged for Class B LP Units. Class A Units and Class B Units have economic and voting rights that are equivalent in all respects and will rank equally on a dissolution, liquidation or winding-up of the Operating LP. Each Class A Unit and Class B Unit entitles the holder thereof to one vote at meetings of holders of the Operating LP Units.

## **Distributions**

The Operating LP distribute to limited partners of record holding Class A Units and Class B Units on the last day of each month, their *pro rata* portions of distributable cash as set out below. Distributions are made within 15 days following the end of each month. Distributions are made within 15 days following the end of each month. The Operating LP may, in addition, make a distribution at any other time.

Distributable cash for a monthly period consists, in general, of available cash for the particular monthly period less any estimated cash amounts required for debt service obligations, other expense obligations, capital expenditures, taxes, reserves (including amounts on account of capital expenditures and reserves to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate by the GP. Capital and other expenditures, including amounts required to enable the Operating LP to pay equal monthly distributions based on expected annual cash distributions, may also be financed with borrowings or additional issuances of securities.

## **Allocation of Earnings and Losses**

The income or loss for tax purposes of the Operating LP for a particular fiscal year generally is allocated to each partner in an amount calculated by multiplying the total income or loss for tax purposes to be allocated to the partners by a fraction, the numerator of which is the sum of the cash distributions or advances received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions or advances made by the Operating LP to all partners with respect to that fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed or advanced by the Operating LP to that partner.

Income and loss of the Operating LP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

The fiscal year end of the Operating LP is December 31.

## **Limited Liability**

The Operating LP will operate in a manner as to ensure to the greatest extent possible the limited liability of the LP as a limited partner. The LP may lose its limited liability in certain circumstances. If limited liability is lost by reason of the negligence of the GP in performing its duties and obligations under the Operating LP Partnership Agreement, the GP has agreed to indemnify the LP against all claims arising from assertions that its liability is not limited as intended by the Operating LP Partnership Agreement. However, since the GP has no significant assets or financial resources, this indemnity may have nominal value.

## **Transfer of LP Units**

The Operating LP Units are transferable subject to compliance with applicable securities restrictions, provided that non-residents of Canada (and partnerships that are not Canadian partnerships within the meaning of the Tax Act) may not acquire or hold an Operating LP Unit. An Operating LP Unit is not transferable in part, and no transfer

of an Operating LP Unit will be accepted by the GP, unless a transfer form, duly completed and signed by the registered holder of the Operating LP Unit and the transferee, has been remitted to the registrar and transfer agent of the Operating LP. A transferee of an Operating LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the Operating LP Partnership Agreement on the date on which the transfer is recorded.

### **Amendment**

The Operating LP Partnership Agreement may be amended with the prior consent of the holders of at least 66 2/3% of the Operating LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding more than 66 2/3% of the Operating LP Units entitled to vote at a duly constituted meeting (a “Partnership Special Resolution”), except for certain amendments, which require unanimous approval of holders of Operating LP Units, including: (i) altering the ability of the limited partners to remove the GP involuntarily; (ii) changing the liability of any limited partner; (iii) changing the right of a limited partner to vote at any meeting; or (iv) changing the Operating LP from a limited partnership to a general partnership.

Notwithstanding the foregoing,

- no amendment which would adversely affect the rights and obligations of the GP, as general partner, may be made without its consent;
- no amendment which would adversely affect the rights and obligations of any particular partner without similarly affecting the rights and obligations of all other partners may be made without the consent of that partner; and
- the GP may make amendments to the Operating LP Partnership Agreement to reflect: (i) a change in the name of the Operating LP or the location of the principal place of business of the Operating LP or the registered office of the Operating LP; (ii) a change in the governing law of the Operating LP to any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the Operating LP Partnership Agreement; (iv) a change that, as determined by the GP, is reasonable and necessary or appropriate to qualify or continue the qualification of the Operating LP as a limited partnership in which the limited partners have limited liability under applicable laws; (v) a change that, as determined by the GP, is reasonable and necessary or appropriate to enable the Operating LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Operating LP Partnership Agreement which may be defective or inconsistent with any other provision contained in the Operating LP Partnership Agreement or which should be made to make the Operating LP Partnership Agreement consistent with the disclosure set out in this Annual Information Form.

### **Meetings**

The GP may call meetings of partners and is required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding Operating LP Units. A quorum at a meeting of partners consists of one or more partners present in person or by proxy.

## **DESCRIPTION OF THE GP**

### **General**

The GP is a corporation incorporated under the laws of Canada and acts as the general partner of the LP and the Operating LP. The Fund owns all of the outstanding common shares of the GP.

## **Functions and Powers of the GP**

The GP has exclusive authority to manage the business and affairs of the LP and the Operating LP, to make all decisions regarding the business of the LP and the Operating LP and to bind the LP and the Operating LP. The GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the LP and the Operating LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the GP to manage the business and affairs of the LP includes all authority necessary or incidental to carry out the objects, purposes and business of the LP and the Operating LP, including, without limitation, the ability to engage agents to assist the GP to carry out its management obligations or substantially administrative functions. The GP cannot dissolve the LP or the Operating LP or wind up the LP's or the Operating LP's affairs except in accordance with the provisions of the LP Partnership Agreement or the Operating LP Partnership Agreement, as applicable.

## **Withdrawal or Removal of the GP**

The GP may resign on not less than 180 days written notice to the limited partners of the LP or the Operating LP, as applicable, provided that the GP will not resign if the effect would be to dissolve the LP or the Operating LP, as applicable.

The GP may not be removed as general partner of the LP or the Operating LP, as applicable, unless: (i) the GP has committed a material breach of the LP Partnership Agreement or the Operating LP Partnership Agreement, as applicable, which breach has continued for 30 days after notice, and that removal is also approved by a Partnership Special Resolution; or (ii) the shareholders or directors of the GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of the GP, or the GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the LP Partnership Agreement or the Operating LP Partnership Agreement, as applicable.

## **DESCRIPTION OF CANCO, USCO AND KFM LLC**

### **General**

CanCo is an unlimited liability company incorporated under the laws of the Province of Nova Scotia. The share capital of CanCo consists of fifty million common shares. The LP owns all of the outstanding common shares of CanCo and holds the CanCo Note.

USCo is a corporation incorporated under the laws of Delaware. The share capital of USCo consists of one hundred shares of common stock. CanCo owns all of the outstanding shares of common stock of USCo and holds the USCo Note.

KFM LLC is a limited liability company formed under the laws of Delaware. The capital of KFM LLC consists of an unlimited number of common membership interests and an unlimited number of Class B Interests. USCo owns all of the common membership interests and KTL LLC owns all of the Class B Interests of KFM LLC.

### **CanCo and USCo Distribution Policy**

Each of CanCo and USCo makes monthly cash distributions of its cash available for distribution to shareholders to the extent determined prudent by their respective boards of directors by way of dividends on its common shares and returns of capital. Cash available for distribution will consist generally of monthly net cash receipts less any estimated cash amounts required for debt service obligations including, in the case of USCo, the USCo Note, and in the case of CanCo, the CanCo Note, general and administrative expenses, other expense obligations, taxes, long-term incentive awards and other incentives, reserves (including amounts on account of capital expenditures and to stabilize distributions to Unitholders) and such other amounts as may be considered appropriate by their respective boards of directors.

## **KFM LLC Capital and Distributions**

KFM LLC makes monthly cash distributions of its cash available for distribution to holders of Class B and common membership interests to the extent determined prudent by way of distributions on common membership interests and Class B Interests and returns of capital.

## **KFM LLC Common Membership Interests**

Holders of common membership interests of KFM LLC are entitled to receive distributions as and when declared by the board of managers (and subject to the preferential entitlement of the holders of Class B Interests) and are entitled to one vote per common membership interest on all matters to be voted on at all meetings of members. Upon the voluntary or involuntary liquidation, dissolution or winding-up of KFM LLC, the holders of common membership interests are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities. Cash available for distribution will consist generally of monthly net cash receipts less any estimated cash amounts required for debt service obligations, general and administrative expenses (including amounts on account of capital expenditures and to stabilize distributions to Unitholders) and such other amounts as may be deemed appropriate by the board of managers of KFM LLC. Distributions on the common membership interests are paid on a monthly basis on or about the 15th day of the following month.

## **KFM LLC Class B Interests**

The holders of the Class B Interests are entitled to receive, as and when declared by the board of managers of KFM LLC and to the extent that cash properly applicable to the payment of distributions is available, a fixed cumulative preferential cash distribution at a rate equal to the U.S. dollar equivalent on the date of such distribution of the lesser of (i) \$0.075625, being 110% of the initial monthly distribution per Unit, and (ii) the then most recently announced distribution per Unit.

To the extent funds are available, distributions on the Class B Interests is paid on a monthly basis on the same day that distributions are paid on the Units.

Pursuant to the terms of the Class B Interests, holders of Class B Interests are entitled to require KFM LLC to convert all or any portion of their Class B Interests into (i) Units (on a one-for-one basis, subject to customary anti-dilution provisions), representing in the aggregate, approximately 21.8% of the outstanding Units on a fully-diluted basis, or (ii) at the sole election of KFM LLC, cash equal to the market price (as defined in the Declaration of Trust of the Fund) of those Units on the date of conversion. The conversion rights may be exercised by a holder of Class B Interests at any time at its discretion so long as all of the following conditions have been met: (a) the conversion pursuant to the conversion rights, and the issuance of Units pursuant thereto and the terms of the Support and Registration Rights Agreement, would not cause the Fund to breach the restrictions respecting non-resident ownership contained in the Fund Declaration of Trust as described in “Description of the Fund — Limitation on Non-Resident Ownership”; (b) the Fund is legally entitled to issue the Units in connection with the exercise of the conversion rights and the terms of the Support and Registration Rights Agreement; and (c) the person receiving the Units upon the exercise of the conversion rights complies with all applicable securities laws. Upon conversion, a holder of the Class B membership interest will not be entitled to accrued and unpaid distributions.

The Class B Interests entitles the holder to appoint one manager to the board of managers of KFM LLC if accumulated and unpaid distributions on the Class B Interests exceed 24 monthly distributions and thereafter until all such accumulated distributions are fully paid.

The Class B Interests are non-voting and the holders of those interests are not entitled to receive notice of or to attend or vote at any meeting of the members of KFM LLC, other than as prescribed by law.

In the event of the liquidation, dissolution or winding-up of KFM LLC or other distribution of assets of KFM LLC among members for the purpose of winding-up its affairs, or a sale of all or substantially all of the assets of KFM LLC, the holders of Class B Interests shall be entitled to receive a fixed amount for each Class B membership interest held, together with all accrued and unpaid (whether or not declared) cumulative distributions thereon

calculated up to the date of distribution (which for such purposes shall be calculated as if such distributions, to the extent unpaid, were accruing for the period from the expiration of the last period for which distributions thereon were paid in full up to the date of distribution) before any amount shall be paid or any assets of KFM LLC distributed to holders of any other class of interests ranking junior to the Class B Interests. After payment to the holders of the Class B Interests of the amount so payable to them as provided above, the remaining assets and funds of KFM LLC available for distribution to members shall be distributed rateably among the holders of common membership interests.

### **CanCo Note**

CanCo is indebted to the LP in the aggregate principal amount of approximately US\$3.2 million pursuant to the CanCo Note.

The CanCo Note will mature on the 10th anniversary of the date of issuance and bears interest at a rate of 7.20% per annum, payable in arrears on or about the 15th day of each calendar month that such CanCo Note is outstanding.

On maturity, CanCo will repay the CanCo Note by paying to the LP, in cash, an amount equal to the principal amount of the outstanding CanCo Note that has then matured, together with accrued and unpaid interest thereon.

The CanCo Note is redeemable, at the option of CanCo prior to maturity, at a redemption price equal to the principal amount thereof, plus all accrued interest thereon, payable in cash.

Payment of the principal amount and interest on the CanCo Note is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness of CanCo, which is defined as any interest hedging facility and all indebtedness, liabilities and obligations of or guaranteed by CanCo which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the CanCo Note, but excluding any such indebtedness to trade creditors. CanCo may also designate in writing from time to time any other obligations or liabilities or class thereof, as senior indebtedness. Upon any distribution of the assets of CanCo in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to CanCo, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the CanCo Note are entitled to receive any payment. Senior indebtedness of CanCo will include the obligations of CanCo in respect of the Credit Facilities.

The CanCo Note is an unsecured debt obligation of CanCo.

Any of the following shall constitute an event of default under the CanCo Note: (i) default in repayment of the principal amount of the CanCo Note when the same becomes due and payable and the continuation of such default for a period of 10 business days; (ii) subject to the terms of any senior indebtedness, the failure to pay the interest obligations of the CanCo Note, if and when issued, and continuation of such default for a period of 90 days; (iii) certain events of dissolution, liquidation, bankruptcy, insolvency or other similar proceedings relative to CanCo or its affiliates; or (iv) default in the observance or performance of any other covenant or condition of the CanCo Note and the continuance of such default for a period of 30 days after notice in writing has been given by the LP to CanCo specifying such default and requiring CanCo to rectify the same.

### **USCo Note**

USCo is indebted to CanCo in the aggregate principal amount of approximately US\$3.2 million pursuant to the USCo Note.

The USCo Note will mature on the 10th anniversary of the date of issuance and bears interest at a rate of 8.00% per annum, payable in arrears on or about the 15th day of each calendar month that such USCo Note is outstanding.

On maturity, USCo will repay the USCo Note by paying to CanCo, in cash, an amount equal to the principal amount of the outstanding USCo Note that has then matured, together with accrued and unpaid interest thereon.

The USCo Note is redeemable, at the option of USCo prior to maturity, at a redemption price equal to the principal amount thereof, plus all accrued interest thereon, payable in cash.

Payment of the principal amount and interest on the USCo Note is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness of USCo, which is defined as any interest hedging facility and all indebtedness, liabilities and obligations of or guaranteed by USCo which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the USCo Note, but excluding any such indebtedness to trade creditors. USCo may also designate in writing from time to time any other obligations or liabilities or class thereof, as senior indebtedness. Upon any distribution of the assets of USCo in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to USCo, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the USCo Note are entitled to receive any payment. Senior indebtedness of USCo will include the obligations of USCo in respect of the Credit Facilities.

The USCo Note is an unsecured debt obligation of USCo.

Any of the following shall constitute an event of default under the USCo Note: (i) default in repayment of the principal amount of the USCo Note when the same becomes due and payable and the continuation of such default for a period of 10 business days; (ii) subject to the terms of any senior indebtedness, the failure to pay the interest obligations of the USCo Note, if and when issued, and continuation of such default for a period of 90 days; (iii) certain events of dissolution, liquidation, bankruptcy, insolvency or other similar proceedings relative to USCo or its affiliates; or (iv) default in the observance or performance of any other covenant or condition of the USCo Note and the continuance of such default for a period of 30 days after notice in writing has been given by CanCo to USCo specifying such default and requiring USCo to rectify the same.

## **THE MANAGER**

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

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

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

- advising with respect to marketing and sales;
- advising on all significant fibre supply commitments;
- overseeing the preparation of operational plans and budgets and making recommendations in respect thereof to KFM LLC and the Operating LP;
- monitoring and overseeing internal management teams, operational plans, and operating activities;
- advising with respect to the best practices and new developments in silviculture and other forestry practices;
- advising and assisting with proposed financings;

- advising and assisting with acquisitions and dispositions;
- advising and assisting with community and investor relations;
- overseeing the Fund's reporting requirements under applicable law;
- providing oversight of tax planning activities and oversight related to the preparation of income tax returns;
- providing assistance with the coordination and oversight of legal services;
- providing oversight of information technology support and services;
- providing oversight of certain treasury services; and
- overseeing and coordinating the issuance of press releases approved by the Board.

In consideration for the provision of its services, the Manager is entitled to:

- an annual base fee (payable quarterly) in an amount equal to (i) \$2 million (subject to adjustment based on the Consumer Price Index), plus (ii) 1.25% of the positive difference, if any, between the Asset Value of the Fund (calculated as at the end of each fiscal quarter of the Fund) and the Asset Value of the Fund on the date of the Fund's initial public offering, January 31, 2006 (subject to adjustment based on the Consumer Price Index); and
- an annual performance fee equal to 15% of the amount by which distributable cash per Unit of the Fund in respect of the applicable year exceeds \$0.9075, multiplied by the number of Units outstanding as at the end of such year.

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

The Manager is a wholly-owned subsidiary entity of Brookfield, which holds indirectly all of the Class B Interests and also holds approximately 48% of the issued and outstanding common shares of Fraser Papers.

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

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

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

The Manager may terminate its engagement as manager under the Management Agreement in respect of the Operating LP or KFM LLC (i) in the event of the insolvency or receivership of the Operating LP or KFM LLC, as applicable, or (ii) in the case of material breach or default by the Operating LP or KFM LLC, as applicable, of the provisions of the Management Agreement which is not remedied within 60 days following delivery of written notice

thereof (unless such breach is capable of being cured and the applicable party is working diligently to cure such default).

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

## **DEBT FINANCING**

The LP entered into senior secured credit facilities on January 31, 2006, which include a revolving credit facility of up to \$5 million (the “Revolving Facility”) and a term credit facility in an amount up to \$42 million (the “Term Facility”). As at December 31, 2006, no funds had been drawn on the revolving credit facility. The term facility is fully drawn. The Term Facility and the Revolving Facility are collectively referred to herein as the “Credit Facilities”.

The Revolving Facility is used for general corporate purposes, including the payment of distributions, as required due to cash flow fluctuations. The Revolving Facility is available until January 30, 2008. The Term Facility is a term facility that will mature January 30, 2009, with no scheduled repayments of principal required prior to maturity. As the Credit Facilities will mature no later than the third anniversary thereof, there can be no assurance that future borrowings, whether as a refinancing of the Credit Facilities or otherwise, will be available to the LP, or available on acceptable terms, in an amount sufficient to fund the LP’s needs. See “Risk Factors — Leverage and Restrictive Covenants in Agreements Relating to Indebtedness of the Partnership”.

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

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

The Credit Facilities are subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The Credit Facilities are also subject to the maintenance of a maximum ratio of debt to EBITDA and a minimum ratio of EBITDA to interest expense (EBITDA will be separately defined for such purposes in definitive documentation in respect of the Credit Facilities). The LP is in compliance with these covenants as of December 31, 2006. The Credit Facilities may in certain circumstances restrict the LP’s ability to pay distributions on the LP Units, including limiting distributions unless sufficient funds are available for the repayments of indebtedness and the payment of interest expenses and taxes.

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

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

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

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

### **RETAINED INTEREST/ PRINCIPAL UNITHOLDERS**

The following table shows the name and information about the securities of the Fund directly or indirectly beneficially owned by each person or company who, as at December 31, 2006, will own of record, or who, to the knowledge of the Fund, will own beneficially, directly or indirectly, more than 10% of any class or series of voting securities of the Fund. The information set forth in the following table is presented on a fully diluted basis assuming the exchange of Class B LP Units held by Fraser Papers for Units of the Fund and the conversion of Class B Interests of KFM LLC held by KTL LLC and Brookfield US for Units of the Fund pursuant to the exchange and conversion rights attached thereto.

<u>Name</u>	<u>Number of Units of the Fund Owned</u>	<u>Type of Ownership</u>	<u>Percentage Owned</u>
Fraser Papers Inc.(1).....	3,613,780	Indirect	21.8%
Brookfield (or one of its affiliates) (2) ....	4,913,262	Direct and Indirect	29.6%

Notes:

- (1) Fraser Papers holds Class B LP Units, which are indirectly exchangeable for 3,613,780 Units of the Fund, subject to customary anti-dilution adjustments, representing in the aggregate, approximately 21.8% of the outstanding Units on a fully-diluted basis. See "Principal Agreements — Exchange Agreement".
- (2) KTL LLC and Brookfield US are subsidiaries of Brookfield and hold, in aggregate, 4,507,030 Class B Interests that entitles KTL LLC and Brookfield US to require KFM LLC to convert such Class B Interests into (i) Units on a one-for-one basis, or (ii) at the sole election of KFM LLC, cash equal to the fair market value of those Units on the date of conversion. See "Description of CanCo, USCo and KFM LLC - KFM LLC Class B Interests". Brookfield also indirectly beneficially owns approximately 49% of the outstanding common shares of Fraser Papers. In addition, Brookfield (or one of its affiliates) directly holds 406,232 units in the Fund.

## PRINCIPAL AGREEMENTS

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

### **FP Exchange Agreement**

On January 31, 2006, the Fund, the Trust, the GP, the LP, the Operating LP and Fraser Papers entered into the FP Exchange Agreement. The FP Exchange Agreement grants to Fraser Papers the right to effectively exchange, through a series of steps described in the FP Exchange Agreement, all or any portion of the Class B LP Units (the “exchange rights”). Each Class B LP Unit is exchangeable for one Unit, subject to customary anti-dilution adjustments. Exchange rights may be exercised by Fraser Papers at any time at its discretion so long as all of the following conditions have been met: (a) the exchange would not cause the Fund to breach the restrictions respecting non-resident ownership contained in the Fund Declaration of Trust as described in “Description of the Fund Limitation on Non-Resident Ownership”; (b) the Fund is legally entitled to issue the Units in connection with the exercise of the exchange rights; and (c) the person receiving the Units upon the exercise of the exchange rights complies with all applicable securities laws. The Class B LP Units and the rights under the FP Exchange Agreement may not be assigned by Fraser Papers.

For so long as Fraser Papers and its affiliates collectively hold at least 10% of the outstanding Units, directly or indirectly, on a fully-diluted basis, Fraser Papers is entitled to demand registration rights and piggyback registration rights, provided that the Fund shall not be obliged to effect: (a) a demand registration during the period starting 14 days prior to and ending 180 days after the effective date of the Fund’s most recent prospectus filed under securities laws, except as may be otherwise agreed by the Fund, Fraser Papers and the underwriters managing such offering, if any; (b) more than two demand registrations pursuant to a long form prospectus or more than four demand registrations in any twelve month period; (c) an underwritten demand registration in respect of Units expected to result in gross sale proceeds of less than CDN\$10 million, or (d) a demand registration in a jurisdiction outside of Canada. If the board of trustees of the Fund determines, in its good faith judgment, that there is a Valid Business Reason, the Fund will have the right to defer the filing of a prospectus for a period of 120 days, provided that such right may not be exercised more than once in any twelve month period. “Valid Business Reason” means a determination that the offering would adversely affect a pending or proposed material acquisition, merger, recapitalization, consolidation, reorganization or similar transaction, or negotiations, discussions, or pending proposals with respect thereto, or would require the disclosure of material non-public information that, in the good faith judgment of the board of trustees, would have a material adverse effect on the Fund or any of its subsidiary entities.

All expenses (including underwriting commissions) incurred in connection with an exercise of registration rights are borne proportionately by Fraser Papers, on the one hand, and the Fund (or its subsidiaries), on the other hand, to the extent of their receipt of proceeds from any offering completed pursuant to such rights.

### **Crown Lands Services Agreement**

Fraser Papers currently holds licences from the Government of the Province of New Brunswick in respect of the Crown Lands. Fraser Papers has the right to approximately 17% of the annual harvest from the Crown Lands in consideration for a royalty fee paid to the Crown. Approximately 83% of the annual harvest from the Crown Lands is sub-licensed by Fraser Papers to third parties who are entitled to cut and harvest timber for their own use on payment of the royalty fee to the Crown and payment of a management fee to Fraser Papers. On January 31, 2006, the Operating LP and Fraser Papers entered into the Crown Lands Services Agreement pursuant to which the Operating LP agreed to provide services under Fraser Papers’ direction relating to the Crown Lands. Under the Crown Lands Services Agreement, the Operating LP charges Fraser Papers the following prescribed fees: (i) Acadian’s cost of production (including harvest cost, transportation, access road construction and maintenance), and (ii) a service fee (calculated in \$/m<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 Crown Lands under the Crown Licenses, Fraser Papers is responsible for collecting and paying to the Government (i) a royalty fee (calculated in  $\$/m^3$  that varies based on species type), and (ii) a levy fee (calculated in  $\$/m^3$  for silviculture spending that differs for softwood and hardwood). 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 Licenses.

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

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

### **Fibre Supply Agreement**

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

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

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

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

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

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

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

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

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

### **KPC LLC Fibre Supply Agreement**

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

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

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

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

### **Fraser Papers/KFM LLC Fibre Supply Agreement**

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

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

### **Exclusivity Agreement**

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

## DISTRIBUTIONS

### Distributions per Unit

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

Period(1) 2006	Distributions Per Unit \$0.76
-------------------	----------------------------------

Notes:

(1) The Fund had its Initial Public Offering on January 31, 2006 and so only has one fiscal year to report.

### Distribution Policy

Refer to "Description of the Fund — Distributions".

## MARKET FOR SECURITIES

The Units are currently listed for trading on the TSX under symbol ADN.UN. None of the units of the Trust, the LP, or the Operating LP, or the shares of KFM LLC, CanCo, or USCo are listed for trading on a recognized exchange nor is there a market for such securities. The following table sets forth the price ranges and volume traded for Units on the TSX for each month during 2006:

Unit Trading Price Range	Jan(1)	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
High	9.95	10.18	10.06	10.00	9.95	9.75	9.64	9.63	9.45	9.45	9.05	9.40
Low	9.70	9.99	9.88	9.72	9.42	8.75	9.00	8.85	9.05	9.10	7.90	8.08
Close	9.89	10.06	9.99	9.88	9.85	9.00	9.15	9.00	9.15	9.35	8.70	9.25
Average Daily Volume	489,308	86,074	23,000	19,152	12,578	8,424	22,190	10,132	15,899	14,578	19,372	29,844

Notes:

(1) There was only one day of trading in January as the Fund had its Initial Public Offering on January 31, 2006.

## TRUSTEES AND OFFICERS OF THE FUND

The section entitled "Trustees of the Fund" contained on pages 4 of the Fund's Management Information Circular dated March 30, 2007 is incorporated herein by reference.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The section entitled "Interest of Informed Persons in Material Transactions" contained on page 9 of the Fund's Management Information Circular dated March 30, 2007 is incorporated herein by reference.

## TRANSFER AGENTS AND REGISTRARS

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

## MATERIAL CONTRACTS

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

- (i) the Fund Declaration of Trust, described under “Description of the Fund”;
- (ii) the Trust Declaration of Trust, described under “Description of the Trust”;
- (iii) the Trust Note Indenture, described under “Description of the Trust”;
- (iv) the LP Partnership Agreement, described under “Description of the LP”;
- (v) the Operating LP Partnership Agreement, described under “Description of the Operating LP”;
- (vi) the Support and Registration Rights Agreement, described under “Principal Agreements — Support and Registration Rights Agreement”;
- (vii) the FP Exchange Agreement, described under “Principal Agreements — FP Exchange Agreement”;
- (ix) the credit agreement creating the Credit Facilities, described under “Debt Financing”;
- (x) the Management Agreement described under “Management of the Fund and Partnership — The Manager”;
- (xi) the Crown Lands Services Agreement described under “Principal Agreements — Crown Lands Services Agreement”;
- (xii) the Fibre Supply Agreement described under “Principal Agreements — Fibre Supply Agreement”;
- (xiii) the KPC LLC Fibre Supply Agreement described under “Principal Agreements — Katahdin Paper Company Fibre Supply Agreement”;
- (xiv) the KFM Credit Facility, described under “Debt Financing”; and
- (xv) the Exclusivity Agreement described under “Principal Agreements — Exclusivity Agreement”;

## RISK FACTORS

The following information is only a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. These risks and uncertainties are not the only ones facing the Partnership and the Fund. Additional risks and uncertainties not presently known to the Partnership or the Fund, or that the Partnership or the Fund currently deem immaterial, may also impair the operations of the Partnership or the Fund. If any such risks actually occur, the business, assets, financial condition, results of operations, cash flows, liquidity and/or distributable cash of the Partnership could be materially adversely affected and the ability of the Fund to make distributions on the Units could be materially adversely affected.

## **Risks Related to the Business and Industry**

### ***Dependence on Fraser Papers***

A significant percentage of net sales from the Acadian Timberlands were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers. Acadian's financial results could be materially adversely affected if Fraser Papers reduces the volume of fibre that it is currently purchasing as a result of market factors or the sale or closure (whether temporary or permanent) of any of its owned or managed mills. 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. This right may restrict Acadian's ability to find replacement customers given uncertainty of ongoing supply to which such replacement customers will 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 the potential of Fraser Papers losing management over the Crown Lands subject to these licences and thereby potentially eliminating the fees earned by Acadian in providing services relating to the Crown Lands. The fees that Acadian earns for these services cover a portion of Acadian's total fixed costs. In the event that Fraser Papers were to lose the management of the Crown Licenses causing Acadian to lose the service fees from Fraser Papers relating to the Crown Licenses, management believes that it may not be able to eliminate sufficient fixed costs and a reduction in distributable cash could result.

### ***Dependence on the Lumber and Pulp and Paper Industries***

Acadian 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, such as those caused by the trade dispute between Canadian and U.S. softwood lumber producers. Any of these circumstances could significantly reduce the amount of timber that such operators purchase from Acadian.

### ***Dependence on the Housing, Construction, Repair and Remodeling 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 remodeling activity and other industrial uses, which are subject to fluctuations due to changes in general economic conditions. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows for lumber mills who are important customers to Acadian.

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

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

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

### ***Highly Competitive Industry***

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

### ***Lack of Control with Fraser Papers' Crown Lands Management***

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

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

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

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

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

Laws, regulations and related judicial decisions and administrative interpretations affecting Acadian's business are subject to change and new laws and regulations that may affect its business are frequently enacted. Some of these laws and regulations could impose on Acadian significant costs, penalties and liabilities for violations or existing conditions whether or not Acadian caused or knew about them. The Acadian Timberlands are 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 the Acadian Timberlands, Acadian may be required to make regulatory filings. Any of the Government agencies could delay review of or reject any of Acadian's filings. Any

such delay or rejection 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 harvesting of the Acadian Timberlands, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural and man-made disasters. There can be no assurance that Acadian will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows.

### ***Forest Management***

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

### ***Fuel and Energy Costs***

Acadian relies almost exclusively on land transportation for its timber. Consequently, Acadian may be more susceptible to fuel cost increases than other timberland companies, which rely more heavily on other transportation methods that are less exposed to fuel prices.

In addition, many of Acadian's customers are high-energy consumers and, as a result, are themselves vulnerable to energy cost increases. If energy costs increase significantly, Acadian's customers may not be able to compete effectively and may have to reduce current operating volumes or close mills.

### ***Geographic Concentration***

The Acadian 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, such changes could have a material adverse effect on Acadian's overall harvest levels and its financial results. In addition, any reduction in demand due to closure of pulp, paper or lumber manufacturing operations in the region could have a material adverse effect on Acadian's business, assets, financial condition, results of operations, cash flows and/or distributable cash.

### ***Currency Risk***

All of the net sales generated and expenses incurred by the Maine Timberlands are denominated in U.S. dollars. In addition, a significant amount of net sales from the NB Timberlands are denominated in U.S. dollars, while few expenses incurred in respect of the NB Timberlands are incurred in U.S. dollars. Changes in foreign currency exchange rates, particularly the Canadian-U.S. dollar exchange rate, could have a material adverse effect on Acadian.

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. If these fluctuations negatively impact the sawmills and pulp and paper mills to which Acadian sells its fibre, the quantity of fibre sales to such customers

could decline. Such declines could have a material adverse effect on Acadian's business, assets financial condition, results of operations, cash flows and/or distributable cash.

### ***Insurance***

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

### ***Land Titles Claims***

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

### ***Seasonality***

Acadian's operations are subject to seasonal variations. Much of its harvesting activities occur during the summer months, when ground is often dry, and the winter, when ground is frozen, providing a good base on which to operate its harvesting equipment. By contrast, harvesting levels decline in the spring due to the muddy and soft ground conditions. Acadian's operating results, therefore, vary from quarter to quarter, depending on these seasonal factors.

### ***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, which, 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 a decrease in the recreational and commercial activities that lead to those revenues could have a material adverse effect on Acadian.

### ***Dependence on the Manager and Potential Conflicts of Interest***

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

### ***Aboriginal Claims***

Aboriginal claims could adversely affect Acadian's ability to harvest timber. Canadian courts have recognized that aboriginal peoples may possess rights at law in respect of land used or occupied by their ancestors where

treaties have not been concluded to deal with these rights. In Canada, aboriginal groups have made claims in respect of land governed by Canadian authorities, which could affect a portion of the land covered by Fraser Papers' Crown Licenses. Any settlements in respect of these claims could lower the volume of timber managed by Acadian on the Crown Lands and could increase the cost to harvest timber on such lands.

### ***Labour Relations and Labour Laws***

A portion of Acadian's workforce is unionized and, as a result, Acadian is required to negotiate the wages, benefits and other terms with many of its employees collectively. If Acadian is unable to negotiate acceptable contracts with any of its unions as existing agreements expire, Acadian could experience a significant disruption of its operations, higher ongoing labour costs and restrictions 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***

The operations on the Acadian Timberlands rely significantly on a limited number of entities to cut and haul harvested timber, as well as 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. There is a possibility that, in the future, Acadian will have to pay more to retain its workforce, thereby increasing its costs.

### ***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 on the Acadian Timberlands. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to several thousand acres. As Acadian gains additional information regarding the presence of threatened or endangered species on the Acadian Timberlands, or if regulations become more restrictive, the amount of the Acadian Timberlands subject to harvest restrictions could increase.

### ***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 clean-up of contaminated properties could increase Acadian's operating costs.

## **Risks Related to the Structure of the Fund**

### ***Dependence on the Partnership***

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

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

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in

connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Partnership's businesses or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, is entirely dependent on the operations and assets of the Partnership, and is subject to various factors including each of its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margin, its capital expenditure requirements and the rights of the Class B Interest holders of KFM LLC. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

### ***Nature of Units***

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

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

### ***Market Price of Units***

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

### ***Distribution of Securities on Redemption or Termination of the Fund***

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

### ***Dilution of Existing Unitholders***

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund in connection with the conversion of the Class B Interests of KFM LLC by KTL LLC into Units pursuant to the conversion rights attached thereto. See "Description of CanCo, USCo and KFM LLC — KFM LLC Class B Interests" and "Principal Agreements — Support and Registration Rights Agreement". In addition, Fraser Papers will have the right, at any time, to exchange its Class B LP Units for Units representing in the aggregate, an approximate 21.8% interest in the Fund on a fully-diluted basis. See "Principal Agreements — FP Exchange Agreement."

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

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

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

The Credit Facilities contain numerous restrictive covenants that limit the discretion of the LP's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the LP and its subsidiaries to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain a number of financial covenants that require the LP to meet certain financial ratios and financial condition tests. A failure by the LP to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by LP and permit accelerated repayment of the relevant indebtedness. If the repayment of indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that the assets of the LP would be sufficient to repay in full that indebtedness. In addition, the term portion of the Credit Facilities will mature no later than the 3rd anniversary thereof and the revolving portion will mature on January 30, 2008, and accordingly, the LP may be required to refinance such indebtedness or seek alternative financing arrangements. There can be no assurance that the Credit Facilities will be able to be refinanced or refinanced on acceptable terms or that future borrowings or equity financings will be available to the LP, or available on acceptable terms, in an amount sufficient to fund the LP's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of the Partnership and the ability of the Fund to make distributions on Units.

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

### ***Future Sales of Units by KTL LLC and Fraser Papers***

KTL LLC and Brookfield US holds all of the Class B Interests of KFM LLC, representing approximately 27% of the outstanding Units on a fully-diluted basis. KTL LLC has also been granted certain registration rights by the Fund. See "Principal Agreements — Support and Registration Rights Agreement". In addition, Fraser Papers will have the right, at any time, to exchange its Class B LP Units for Units representing in the aggregate, an approximate 22% interest in the Fund on a fully-diluted basis. Fraser Papers has also been granted certain registration rights by the Fund. See "Principal Agreements — FP Exchange Agreement". If KTL LLC or Fraser Papers sells substantial

amounts of Units in the public market, the market price of the Units could fall. The perception among the public that these net sales will occur could also contribute to a decline in the market price of the Units.

### *Income Tax Matters*

On October 31, 2006, the Minister of Finance (Canada) announced the “Tax Fairness Plan” and tabled a Notice of Ways and Means Motion that proposes to significantly change the income tax treatment of most publicly traded trusts and partnerships (other than certain real estate investment trusts) and the distributions and allocations, as the case may be, from these entities to their investors. The proposals were released in draft legislative form on December 21, 2006. Under the proposals, certain income earned by these entities will be taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made by these entities to investors will be taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend will be eligible for the new enhanced dividend tax credit if paid or allocated to a resident of Canada. These proposals will be effective for the 2007 taxation year for trusts and partnerships that commenced public trading after October 31, 2006, but will generally be delayed until the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, such as the Fund. However, the deferral until 2011 may be rescinded where the affected entity does not comply with the Department of Finance’s “normal growth” guidelines.

The Fund is currently considering these proposals and the guidelines and the possible impact they will have on the Fund and its investors. However, these proposals are not expected to have an immediate impact on the Fund’s tax treatment or distribution policy or the tax treatment of distributions to investors. Until the final legislation implementing the proposed changes is introduced, the exact impact of the changes to the Fund is unknown.

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

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

In addition, the FP Acquisition Agreement under which Fraser Papers will transfer the NB Timberlands and ancillary assets to the Operating LP provides that Fraser Papers and the Operating LP will make elections under the Tax Act and corresponding provincial legislation, if applicable, to transfer such assets on a partially tax-deferred basis for income tax purposes. The cost to the Operating LP of such assets for income tax purposes may therefore be less than their fair market value, such that the Operating LP may realize greater taxable income on a future disposition of these assets than it would have, had it acquired the assets without such elections having been made. In addition, the Operating LP’s deductions for capital cost allowance and other tax deductions may be less than they would have been in the absence of a tax-deferred transfer.

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

#### ***Limitation on Potential Growth***

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

#### ***Restrictions on Certain Unitholders and Liquidity of Units***

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

#### ***Statutory Remedies***

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis contained in the Fund's 2006 Annual Report, is incorporated herein by reference.

## **LEGAL PROCEEDINGS**

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

## **PROMOTER**

Fraser Papers may be considered to be a promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund. Fraser Papers holds Class B LP Units, which are indirectly exchangeable for 3,613,780 Units of the Fund, subject to customary anti-dilution adjustments, representing in the aggregate, approximately 22% of the outstanding Units on a fully-diluted basis. See "Principal Agreements — Exchange Agreement". As part of the transactions related to the initial public offering of the Fund, the Operating LP acquired the NB Timberlands and the ancillary assets from Fraser Papers in consideration for (i) \$108.4 million and (ii) 3,613,780 Class B Units of the Operating LP.

## AUDIT COMMITTEE INFORMATION

The following information is provided in accordance with Form 52-110 F1 under the Regulation 52-110 - Audit Committees.

### ***Audit Committee Charter***

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

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

In fiscal year 2006, the Audit Committee was composed of: David M. Mann (Chairperson); J.W. Bud Bird; and Louis J. Maroun. Each member of the committee is considered “independent” and “financially literate” as such terms are defined in MI 52-110.

### ***Relevant Education and Experience***

Each member of the Audit Committee is financially literate, i.e., has the ability to read and understand financial statements. Collectively, the Audit Committee has the education and experience to fulfill the responsibilities outlined in the Audit Committee Terms of Reference. The education and past experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member can be found in the Fund Management Information Circular for its 2007 annual general meeting.

### ***Pre-Approval Policies and Procedures***

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

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

Subject to the above mentioned policy, the Audit Committee may establish fee thresholds for a group of pre-approved services, provided that such fees will, when combined with all such fees that have not been specifically approved by the audit committee, aggregate less than 25% of the anticipated audit fees for the registrant and its subsidiaries for the same year. In such cases, the description of services must be sufficiently detailed as to the particular services to be provided to ensure that (i) the Audit Committee knows precisely what services it is being asked to pre-approve and (ii) the Audit Committee’s responsibilities are not delegated to management. All such services will be ratified at the next scheduled meeting of the Audit Committee, and upon such ratification will no longer be included in determining the aggregate fees covered by this limited approval.

### ***External Auditor Service Fees (by Category)***

A summary of the fees for the year ended 2006 is included below:

	<b>2006 Actual Fees</b>
Audit Fees	\$175,000
Audit-Related Fees <sup>(1)</sup>	66,500
Tax Fees <sup>(2)</sup>	0
All Other Fees <sup>(3)</sup>	0
<b>Total Fees</b>	<b><u>\$241,500</u></b>

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

### **ADDITIONAL INFORMATION**

Additional information, including remuneration and indebtedness of the Trustees of the Fund and the Trust, and the directors of the General Partner and KFM LLC, principal holders of the Fund's, the Trust's, the LP's, the Operating LP's, and KFM LLC's securities, interest of insiders in material transactions, is contained in the Fund's information circular for most recent annual meeting of Unitholders scheduled for May 3, 2007, at which the Fund Trustees are to be elected, and additional financial information is provided in the Fund's comparative financial statements for the period commencing January 1, 2006 and ended December 31, 2006, 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

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

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

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

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

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

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

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

“**Brookfield US**” means Brascan (U.S.) Corporation;

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

“**CanCo Note**” means the interest bearing note of CanCo described under “Description of CanCo, USCo and KFM LLC — CanCo Note”;

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

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

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

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

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

“**Class B Interests**” means the convertible preferred membership interests in KFM LLC;

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

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

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

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

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

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

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

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

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

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

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

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

“**FP Exchange Agreement**” means the exchange agreement among the Fund, the Trust, the GP, the LP, the Operating LP and Fraser Papers described under “Principal Agreements — FP Exchange Agreement”;

“**FP Acquisition Agreement**” means the acquisition agreement entered into between the Fund, the Trust, the LP, the GP, the Operating LP and Fraser Papers and others on January 23, 2006;

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

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

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

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

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

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

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

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

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

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

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

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

“**KTL LLC**” means Katahdin Timberlands LLC, a limited liability company formed under the laws of Delaware;

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

“**LP Partnership Agreement**” means the LP limited partnership agreement governing the LP dated January 31, 2006;

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

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

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

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

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

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

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

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

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

“**Operating LP Partnership Agreement**” means the limited partnership agreement governing the Operating LP dated January 31, 2006;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**Trust**” means AT Trust;

“**Trust Declaration of Trust**” means the declaration of trust dated on January 16, 2006 pursuant to which the Trust was established, as the same may be amended, supplemented or restated from time to time;

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

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

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

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

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

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

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

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

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

“**USCo Note**” means the interest-bearing note of USCo described under “Description of CanCo, USCo and KFM LLC — USCo Note”;

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

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

**SCHEDULE A**  
**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

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

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

**1. MEMBERSHIP AND CHAIRPERSON**

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

**2. RESPONSIBILITIES**

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

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

### **3. MEETINGS**

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

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

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