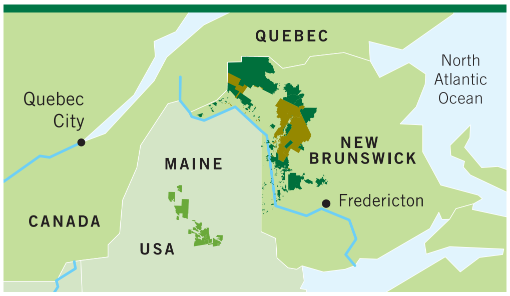
Annual Report 2010

Acadian Timber Corp. (TSX: ADN), is a leading supplier of primary forest products in Eastern Canada and the Northeastern U.S. With a total of 2.4 million acres of land under management, Acadian is the second largest timberland operator in New Brunswick and Maine. Acadian is managed by a wholly-owned subsidiary of Brookfield Asset Management Inc. (NYSE: BAM, TSX: BAM.A and Euronext: BAMA).

Acadian owns and manages approximately 1.1 million acres of freehold timberlands in New Brunswick and Maine, and provides management services relating to 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to more than 100 regional customers.

Acadian's business strategy is to maximize cash flows from its timberland assets, while enhancing the value of these assets over time.

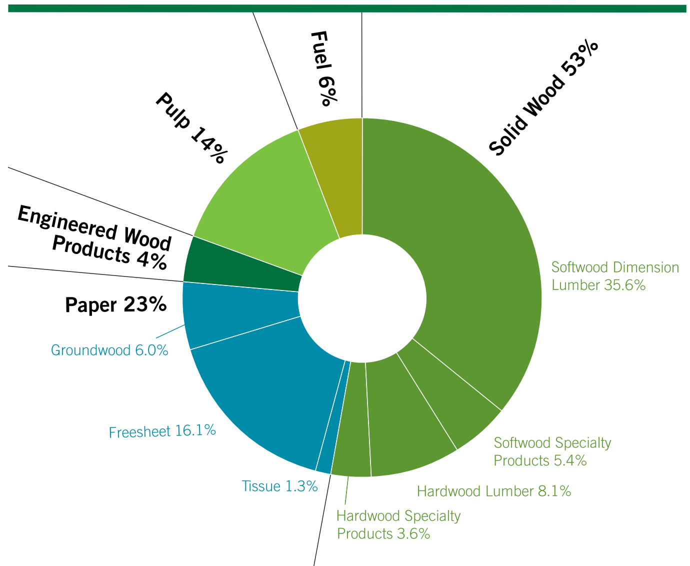
ACADIAN'S LOCATIONS



Forest Areas	*Acres*	*Hectares*
Maine Timberlands	310,000	125,000
New Brunswick Timberlands	765,000	310,000
Crown Lands Under Management	1,313,000	533,000
Area Under Management	2,388,000	968,000

ACADIAN'S PRODUCT MIX BY END USE*

Acadian sells a wide variety of products to a broad group of customers. Acadian's greatest exposure is to softwood sawlogs; however, markets for hardwood sawlogs, hardwood and softwood pulpwood, and biomass meaningfully diversify our sales.



** Percentage of log sales by value for the year ended December 31, 2010.*

2010 HIGHLIGHTS

- Generated net sales of $71.0 million and EBITDA of $18.0 million on consolidated sales volume of 1,399 thousand m^3 in a difficult operating environment
- Successfully obtained commitment to refinance Acadian's debt for a 5 year term with favourable interest rates and a flexible covenant package
- Maintained strong safety performance

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FINANCIAL HIGHLIGHTS

Years Ended December 31 *(CAD millions, except where indicated)*	**2010**	2009
Sales volume (000s m^3)	**1,398.7**	1,258.3
Net sales	**$ 71.0**	$ 63.4
EBITDA[1]	**$ 18.0**	$ 12.1
Free cash flow[1]	**$ 13.6**	$ 8.1

1 *Free cash flow and earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of Acadian's operating performance. As free cash flow and EBITDA do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP"), they may not be comparable to similar measures presented by other companies. Please refer to Management's Discussion and Analysis for further details.*

PRESIDENT'S LETTER TO SHAREHOLDERS

Generated Free Cash Flow of $0.81 per share in 2010

We are pleased to report that Acadian Timber Corp. ("Acadian") performed very well at both corporate and operating levels in 2010. As a result, our financial performance improved significantly, despite challenging market conditions. I believe this strong performance provides excellent evidence in support of my statement last year that we have the team, structure and balance sheet to successfully weather difficult market conditions. Acadian generated free cash flow[1] of $13.6 million or $0.81 per share in 2010 compared to $0.49 per share in 2009. This resulted in a payout ratio of 26% in 2010.

Financial Performance Significantly Improved

Acadian generated net sales of $71.0 million on consolidated sales volume of 1,399 thousand m³ in 2010. Consolidated sales volume during 2009 was 1,258.3 thousand m³, resulting in net sales of $63.4 million. Acadian generated earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA")[1] of $18.0 million in 2010 as compared to EBITDA of $12.1 million in 2009. EBITDA margins increased from 19% in 2009 to 25% in 2010. Acadian's performance in the challenging market environment of 2010 clearly demonstrates the success of our operating managers in harvesting and merchandising our products to maximize market value while keeping costs low.

Commitment to Safety Shows Positive Results

Acadian takes its commitment to safety very seriously as we believe that emphasizing and achieving a good safety record is a leading indicator of success in the broader business. Acadian maintained its solid record of positive safety performance among employees and contractors in our New Brunswick operations, while we posted our eleventh accident free year for employees of our Maine operations. Importantly, the few reportable accidents that occurred were relatively minor and resulted in very little lost time.

Stronger Demand and Lower Costs Supports Improved Financial Performance

Acadian, together with many of its softwood sawmilling customers, benefited from a relatively strong market during the first and second quarters of 2010. Acadian's Maine operations further benefited from improved demand and pricing as several regional competitors struggled to find adequate wood supply owing to the Maine government's efforts to limit Canadian laborer's access to work in the state. The restart of Twin Rivers Paper Company's Plaster Rock sawmill resulted in increased softwood sawlog sales in Acadian's New Brunswick Timberlands. Despite this improved demand, selling prices for softwood sawlogs remained weak with Acadian's weighted average selling price for softwood sawlogs declining 11% from the comparable period in 2009. Acadian's weighted average selling price across all products in 2010 of $47.05 per m³ was 1% lower than the 2009 price of $47.41 per m³. The impact of this modestly lower average selling price was more than offset by the 5% year-over-year decline in unit costs.

Capital Expenditures Tightly Controlled

Capital expenditures totaling $0.6 million in 2010, were comprised of $0.2 million for silvicultural treatments, including planting and herbicide treatments, and $0.4 million invested in roads and bridges. While our silviculture expenditures are largely discretionary from year-to-year we supported a modest program of silvicultural investments during 2010 despite the fact that market conditions have yet to fully recover.

Maturing Debt Refinanced

During 2010, Acadian obtained a commitment letter from a major institutional lender for a 5 year fixed-rate, US$72.5 million loan, to be used to refinance existing debt facilities on February 25, 2011, and a US$10 million floating rate revolving loan, expected to be undrawn upon closing. The terms of this financing, including the interest rates, are very favourable, which we believe reflects the high credit quality of Acadian's assets. Compared to the existing term debt facilities and using current exchange rates, we expect reduced interest expense resulting from the lower interest rate and the company will also benefit from a more flexible covenant package.

Annual Dividend to be Returned to $0.825 per Share

We are pleased to announce that Acadian's Board of Directors has reached a decision to increase Acadian's target annual dividend to $0.825 per share, equivalent to levels prior to last year's dividend cut and consistent with that established at the time of Acadian's initial public offering.

Acadian had a positive year in 2010 generating free cash flow of $13.6 million with declared dividends of $3.6 million. A portion of the incremental free cash flow was used to repay $5.5 million on Acadian's revolving credit facility, drawn primarily to fund last year's corporate conversion, leaving Acadian with a cash balance of $7.3 million. This strong cash position and improved cash flow, in addition to the anticipated reduction in interest expense related to the terms of our refinanced debt, fully supports the decision to increase the dividend.

We are confident that with our strong balance sheet, capable management team and slowly improving economic outlook, this increase is both sustainable and conservative.

Outlook

The economic outlook for the United States improved substantially in the second half of 2010 as a result of larger gains in international trade, a strong holiday shopping season and the tax compromise reached between the Obama administration and the Republican leadership, which will extend lower tax rates on dividends and capital gains and include a temporary reduction in payroll taxes. Despite this improved outlook, recovery of the housing sector is expected to lag as approximately 2.5 million vacant homes remain to overhang on the market. Consensus forecasts for U.S. housing predict an increase in housing starts to 680,000 units in 2011 up from 590,000 in 2010. The recovery is expected to continue in 2012 with total starts forecast of approximately 900,000.

Acadian continues to benefit from smaller, non-industrial timberland owners withholding timber from the market. However, an ample supply of low cost Crown timber in New Brunswick is expected to continue to put pressure on selling prices for softwood sawlogs. Acadian has also benefited from high harvest levels on Twin Rivers Paper Company's Crown licensed timberlands which are managed by Acadian, resulting in a strong contribution from these management services to Acadian's net income in 2010. This strong Crown land services agreement contribution is expected to continue in 2011 as licensees maintain high harvest levels aimed at utilizing unused harvest volumes from the 2008 – 2009 period.

Markets for hardwood sawlogs and specialty products improved during 2010 and are expected to remain relatively stable through 2011. Acadian's major hardwood pulpwood customers continue to operate and take deliveries, and the recent sale of Domtar's Woodland pulp mill in Baileyville, Maine to International Grand Investment Corporation is expected to ensure a more consistent operating level for this key hardwood pulpwood customer going forward.

We expect 2011 to present improving, although uncertain, conditions, but as previously mentioned, we have a very talented, committed and hardworking team of individuals who have proven to be very adept at identifying and accessing market opportunities while keeping costs low. This team gives us great confidence in our outlook for 2011.

Timberlands remain a compelling investment proposition. While they have historically provided strong risk-adjusted returns, timberlands have also demonstrated relatively low volatility and correlation to other asset classes, and a positive correlation with inflation. This provides significant benefits in terms of achieving portfolio diversification and real returns. Notwithstanding the turbulence in some markets today, the long-term supply/demand dynamics for our products remain highly favorable. In addition, and for these reasons, timberlands continue to gain awareness among investors worldwide as an attractive asset class.

We remain excited about the prospects and opportunities that lie ahead and thank you for your continued interest in Acadian. We are confident that the company is well positioned to generate sufficient free cash flow to meet its revised target dividend rate over the coming years.

Reid Carter
President and Chief Executive Officer
February 8, 2011

1 Free cash flow and earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of Acadian's operating performance. As free cash flow and EBITDA do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP"), they may not be comparable to similar measures presented by other companies. Please refer to Management's Discussion and Analysis for further details.

MARKET OVERVIEW

Softwood Sawlogs – 38% of Net Sales

Softwood sawlogs accounted for 38% of Acadian Timber Corp.'s ("Acadian") net sales and 35% of sales volume for the twelve months ended December 31, 2010. Sales volume increased by 91 thousand m³, or 23%, year-over-year, reflecting the return to production by several regional sawmills, including Twin Rivers Paper Company's Plaster Rock sawmill. Demand for softwood sawlogs was relatively strong throughout the year although pricing was depressed from historic levels with the average selling price per m³ for Acadian's softwood sawlogs declining by 11% compared to 2009. Acadian's lumber and panel producing customers benefited from a relatively strong market during much of the first half of 2010 while several regional competitors in our Maine operations struggled to find adequate wood supply owing to the Maine government's efforts to limit Canadian laborer's access to work in the state. This created additional demand and supported pricing. The restart of Twin Rivers Paper Company's Plaster Rock sawmill resulted in overall softwood sawlogs sales in Acadian's New Brunswick Timberlands ("NB Timberlands") increasing by 74 thousand m³, or 28%, year-over-year while softwood sawlog sales in Acadian's Maine Timberlands increased by 17 thousand m³, or 13%, over this same period.

Hardwood Sawlogs – 11% of Net Sales

Hardwood sawlogs accounted for 11% of Acadian's net sales and 6% of sales volume for the twelve months ended December 31, 2010. Sales volume increased by 13 thousand m³, or 20%, year-over-year, reflecting the end of inventory drawdowns by many regional customers and the return to production of several regional sawmills. NB Timberlands hardwood sawlog volumes and average price per m³ were up 12% and 10% from 2009, respectively. Maine Timberlands' hardwood sawlog sales volume increased by over 200% from 2009 due to an unusually low harvest of hardwood in the previous year and the average price per m³ decreased by 5%.

Softwood and Hardwood Pulpwood – 39% of Net Sales

Softwood and hardwood pulpwood shipments accounted for 7% and 33%, respectively, of Acadian's net sales and 9% and 33%, respectively, of sales volume in 2010. Markets for hardwood pulpwood remained robust throughout the year, resulting in an increase in average selling price of 12% year-over-year. Markets for softwood pulplogs were weak during the first half of 2010 but improved late in the third quarter and continued to strengthen through year end. This improvement largely reflects reduced availability of softwood chips as several regional softwood sawmills continued to operate at reduced levels and several Quebec sawmills took downtime owing to full utilization of the harvest quota under their licenses with the Quebec government. This improvement in the softwood pulpwood market resulted in a 12% increase in average selling price compared to 2009.

Biomass – 4% of Net Sales

Biomass markets were weak throughout 2010, accounting for 4% of net sales and 18% of sales volume for the year. This weakness reflected the increased use of lower cost hog fuel by several regional customers and the fact that additional biomass was brought to market during the first half of the year under the USDA Biomass Crop Assistance Program ("BCAP"). Acadian was unable to benefit as Canadian biomass was ineligible for this program. Biomass sales volumes were relatively unchanged year-over-year while margins declined slightly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All figures in Canadian dollars unless otherwise stated)

INTRODUCTION

Acadian Timber Corp. ("Acadian" or the "Company") is a leading supplier of primary forest products in Eastern Canada and the Northeastern United States. With a total of 2.4 million acres of land under management, Acadian is the second largest timberland operator in New Brunswick and Maine.

Acadian owns and manages approximately 765,000 acres of freehold timberlands in New Brunswick ("NB Timberlands"), approximately 310,000 acres of freehold timberlands in Maine ("Maine Timberlands") and provides management services relating to approximately 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to over 100 regional customers. Acadian's business strategy is to maximize cash flows from its timberland assets, while enhancing the value of these assets over time.

Basis of Presentation

This section of our annual report presents management's discussion and analysis ("MD&A") of our financial results and is followed by our consolidated financial statements for the year ended December 31, 2010. The MD&A is intended to provide you with an assessment of our performance during the three month period and year ended December 31, 2010, as compared to the three month period and year ended December 31, 2009.

Our financial results are determined in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars unless otherwise stated. External economic and industry factors remain unchanged, unless otherwise noted.

On January 1, 2010, Acadian Timber Income Fund (the "Fund") completed a plan of arrangement which allowed for its conversion from an income trust to a corporation (the "Arrangement"). This discussion and analysis reflects Acadian as a corporation on and subsequent to January 1, 2010 and as the Fund prior thereto. All references to "dividends" refer to dividends paid or payable to holders of Acadian common shares on and subsequent to January 1, 2010 and to distributions paid or payable to the Fund's unitholders prior to the Arrangement. All references to "common shares" refer collectively to Acadian's common shares on and subsequent to January 1, 2010 and to the Fund's units prior to the Arrangement. All references to "shareholders" refer collectively to holders of Acadian's common shares on and subsequent to January 1, 2010 and to the Fund's unitholders prior to the Arrangement. All references to "free cash flow" refer to free cash flow generated by Acadian subsequent to January 1, 2010 and to distributable cash from operations generated by the Fund prior to the Arrangement.

This MD&A has been prepared based on information available as at February 8, 2011. Additional information is available on Acadian's website at *www.acadiantimber.com* and on SEDAR's website at www.sedar.com.

Non-GAAP Measures

Throughout the MD&A, reference is made to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") and free cash flow. Management believes that EBITDA and free cash flow are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of the Company's operating performance. As EBITDA and free cash flow do not have a standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies. As a result, we have provided reconciliations of net income as determined in accordance with GAAP, to EBITDA and free cash flow in the "Free Cash Flow" section of this MD&A.

Internal Controls over Financial Reporting

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the

Treadway Commission. Based on this assessment, management believes that, as of December 31, 2010, Acadian's internal control over financial reporting is effective. Also, management determined that there were no material weaknesses in Acadian's internal control over financial reporting as of December 31, 2010.

Disclosure Controls

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the Canadian Securities Administrators National Instrument 52-109). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2010 in providing reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be identified within those entities.

REVIEW OF OPERATIONS

Summary of Results for the Years Ended December 31

The table below summarizes operating and financial data for Acadian:

Years Ended December 31 *(CAD millions, except per share data and where indicated)*		**2010**		2009
Total				
Sales volume (000s m^3)		**1,398.7**		1,258.3
Net sales	**$**	**71.0**	$	63.4
EBITDA		**18.0**		12.1
EBITDA margin		**25%**		19%
Free cash flow	**$**	**13.6**	$	8.1
Net income[1]		**8.8**		9.3
Dividends declared				
Common shareholders		**3.6**		11.4
Class B Interest Liability of a subsidiary		**—**		0.3
		3.6		11.7
Payout ratio		**26%**		144%
Total assets	**$**	**217.9**	$	210.2
Total debt		**73.8**		80.7
Per share (fully diluted)				
Free cash flow	**$**	**0.81**	$	0.49
Dividends declared per share				
Common shareholders		**0.22**		0.70
Class B Interest Liability of a subsidiary		**—**		0.07
Net income[1]		**0.53**		0.30
Book value		**6.99**		6.72
Shares outstanding				
Common shareholders		**16,731,216**		16,571,453

1 Net income includes the impact of future income tax recovery/expense, and depreciation and depletion expense, which are non-cash items recorded in each respective period. Net income for the year ended December 31, 2009 only, included the impact of the revaluation of the Class B Interest Liability of a subsidiary.

Free Cash Flow and Dividends

Free cash flow for the year ended December 31, 2010 was $13.6 million, compared to $8.1 million in 2009. Based on our outlook and existing cash reserves, Acadian is well positioned to meet dividend targets in 2011.

Free cash flow represents cash that is generated from the sale of our timber, from the services provided in the management of Crown licensed timberlands and from the sale of non-timber products. Hardwood and softwood harvest volumes represent the productive capacity of Acadian's operations. Harvest volumes, excluding biomass, for the year ended December 31, 2010 were 1,120 thousand

m^3, compared to 1,022 thousand m^3 from the comparable period in 2009 and was within the harvest levels required to maintain the Long Run Sustained Yield ("LRSY") of our timberland estates. Acadian is focused on maximizing long-term value for shareholders, and in doing so will make every effort to maintain a stable financial performance while preserving the long-term value of the business. In order to continue to achieve this objective, Acadian expects to operate at harvest levels within LRSY and will invest in silviculture to improve the quality and value of future harvests. Although this may cause volatility in our free cash flow annually, we will continue to focus on preserving the long-term value of Acadian. The risks associated with our practices with regard to forest sustainability and forest management are described in more detail on page 21 of this report.

The following table provides a reconciliation of net income, in accordance with GAAP, to EBITDA and free cash flow during each respective period:

Years Ended December 31 *(CAD millions)*		**2010**		2009
Net income[1]	**$**	**8.8**	$	9.3
Add (deduct):				
Interest expense on debt		**3.8**		3.1
Distribution on Class B Interest Liability of a subsidiary		**—**		0.3
Future income tax expense (recovery)		**(1.2)**		(3.0)
Depreciation and depletion		**6.6**		7.1
Non-cash gain on Class B Interest Liability of a subsidiary		**—**		(4.7)
EBITDA	**$**	**18.0**	$	12.1
Add (deduct):				
Interest expense on debt		**(3.8)**		(3.1)
Silviculture and capital expenditures		**(0.6)**		(0.5)
Non-cash gain on sale of timberlands		**—**		(0.6)
Proceeds from sale of timberlands, logging roads and fixed assets		**—**		0.6
Acquisition of timberlands		**—**		(0.4)
Free cash flow	**$**	**13.6**	$	8.1
Dividends declared	**$**	**3.6**	$	11.7

1 Net income includes the impact of future income tax recovery/expense, and depreciation and depletion expense, which are non-cash items recorded in each respective period. Net income for the year ended December 31, 2009 only, included the impact of the revaluation of the Class B Interest Liability of a subsidiary.

The following table provides a comparison of dividends declared on common shares during the year ended December 31, 2010, and the comparable period in 2009, to the net income and cash flow from operating activities recorded during each of these respective periods. Distributions on the Class B Interest Liability of a subsidiary in 2009 are included in net income and cash flow from operating activites, as they are recorded as interest expense in accordance with GAAP, and have therefore been excluded from this analysis.

Years Ended December 31 *(CAD millions)*		**2010**		2009
Net income[1]	**$**	**8.8**	$	9.3
Cash flow from operating activities		**14.2**		4.1
Cash dividends declared on common shares		**3.6**		11.4
Excess (shortfall) of cash flows from operating activities over dividends declared	**$**	**10.6**	$	(7.3)
Excess (shortfall) of net income over cash dividends declared	**$**	**5.2**	$	(2.1)

1 Net income includes the impact of future income tax recovery/expense, and depreciation and depletion expense, which are non-cash items recorded in each respective period. Net income for the year ended December 31, 2009 only, included the impact of the revaluation of the Class B Interest Liability of a subsidiary.

Net income and cash flow from operating activities were both greater than cash dividends declared to common shareholders during the year ended December 31, 2010. In determining the appropriate level of dividends, our Board of Directors considers the historic and forecasted quarterly free cash flow of Acadian. Given the seasonality of Acadian's operations, the Company's performance may vary significantly on a quarter by quarter basis. The payout ratio of the Company, which represents the amount of dividends declared as a percentage of the free cash flow generated, for the year ended December 31, 2010 was 26%, as compared to 144% for the year ended December 31, 2009.

As described in more detail on page 11 of this report, Acadian has borrowings totaling $73.8 million that have a security interest over the assets and contain certain restrictive covenants relating to debt incurrence, sale of assets, and the maintenance of certain financial ratios, none of which are in default as at December 31, 2010. These covenants are not expected to restrict the ability of the Company to pay dividends to its shareholders. The obligations of these borrowings over the next five years are disclosed on page 20 of this report. Upon maturity, management intends to refinance these debt obligations at fixed interest rates for 5 years as per the terms of a commitment letter signed with a major institutional lender during 2010. All interest payments on the existing debt obligations are incurred in order to sustain the Company's productive capacity and are thus considered in determining the free cash flow of Acadian.

Dividend Policy of the Corporation

Acadian declares dividends from its available cash to the extent determined prudent by the Board of Directors. These dividends represent cash received from the Corporation's indirect interest in the Maine and NB Timberlands, less estimated cash amounts required for expenses and other obligations of Acadian, cash redemptions of shares and any tax liability. Dividends are paid on or about the 15th day following each dividend declaration date. Total dividends declared to shareholders during the year ended December 31, 2010 were $3.6 million, or $0.22 per share. This compares to total distributions declared to unitholders of $11.7 million or $0.70 per unit for the year ended December 31, 2009.

Acadian had a positive year despite current market conditions which have not yet reflected a recovery in U.S. housing starts. During 2010, Acadian generated free cash flow of $13.6 million and declared dividends of $3.6 million. A portion of this surplus cash flow was used to fully repay the $5.5 million drawn on our revolving credit facility late in 2009, primarily used to fund the corporate conversion costs, and the remainder was held on deposit. The resulting year-end cash balance of $7.3 million and management's current outlook provide strong support for increasing the dividend and, as a result, Acadian announced an increase in the target annual dividend to $0.825 per year.

Results of Operations

For the twelve months ended December 31, 2010, Acadian generated net sales of $71.0 million and EBITDA of $18.0 million on consolidated sales volume of 1,399 thousand m^3. Consolidated sales volume for the twelve months ended December 31, 2009 was 1,258 thousand m^3, resulting in net sales of $63.4 million and EBITDA of $12.1 million.

Acadian's performance in the challenging market environment of 2010 clearly demonstrates the success of Acadian's operating managers in harvesting and merchandising our products to maximize market value while keeping costs low. Selling prices for softwood sawlogs remained weak with prices declining 11% from 2009. Year-over-year, the weighted average selling price across all products was modestly lower on a per m^3 basis, adversely affected by the depreciation of the U.S. dollar. The impact of this average selling price decline was, however, more than offset by the 5% year-over-year decline in unit costs, resulting in an increase in EBITDA margins to 25% for the twelve months ended December 31, 2010 from 19% in 2009.

Future Income Tax Recovery

Included in net income for the year ended December 31, 2010 is a non-cash future income tax recovery of $1.2 million (2009 - $3.0 million). The future income tax liability of the Corporation is based on differences between the financial reporting and tax bases of assets and liabilities of its subsidiaries which have been measured using the substantially enacted tax rates and laws that are expected to be in effect at the time the differences are anticipated to reverse.

Segmented Results of Operations

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

	Year Ended December 31, 2010				*Year Ended December 31, 2009*			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volume (000s m³)	**1,107.6**	**291.1**	**—**	**1,398.7**	997.0	261.3	—	1,258.3
Net sales	**$ 55.9**	**$ 15.1**	**$ —**	**$ 71.0**	$ 48.8	$ 14.6	$ —	$ 63.4
EBITDA	**$ 15.4**	**$ 3.9**	**$ (1.3)**	**$ 18.0**	$ 10.8	$ 4.2	$ (2.9)	$ 12.1
EBITDA margin	**28%**	**26%**	**n/a**	**25%**	22%	29%	n/a	19%

NB Timberlands

NB Timberlands owns and manages 765,000 acres of freehold timberlands, provides management services relating to 1.3 million acres of Crown licensed timberlands and owns a forest nursery. Approximately two-thirds of harvest operations during 2010 was performed by third-party contractors and one-third by NB Timberland employees.

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

	Year Ended December 31, 2010			*Year Ended December 31, 2009*		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**395.4**	**402.6**	**$ 21.0**	336.5	328.9	$ 18.9
Hardwood	**447.7**	**473.6**	**27.2**	444.0	432.7	22.1
Biomass	**231.5**	**231.4**	**2.9**	235.4	235.4	4.5
	1,074.6	**1,107.6**	**51.1**	1,015.9	997.0	45.5
Other sales			**4.8**			3.3
Net sales			**$ 55.9**			$ 48.8
EBITDA			**$ 15.4**			$ 10.8
EBITDA margin			**28%**			22%

Softwood, hardwood and biomass shipments were 403 thousand m³, 474 thousand m³ and 231 thousand m³, respectively, for the year ended December 31, 2010. This represents an 11% increase in overall sales volume compared to the prior year and is largely a result of the restart of Twin Rivers Paper Company's ("Twin Rivers") Plaster Rock sawmill driving increased deliveries under Acadian's Fibre Supply Agreement with Twin Rivers and relatively strong demand across all primary products. Approximately 36% of sales volume was sold as sawlogs, 43% as pulpwood and 21% as biomass in 2010. This compares to 32% of sales volume sold as sawlogs, 44% as pulpwood and 24% as biomass in 2009.

Net sales for the twelve months ended December 31, 2010 was $55.9 million with an average selling price across all products of $46.09 per m³. This compares to net sales of $48.8 million and an average selling price of $45.63 per m³ during the same period in 2009. The year-over-year average selling price was relatively flat as a higher value species mix and improved hardwood pulpwood prices were offset by softer pricing on spruce-fir sawlogs. The overall increase in net sales was primarily a result of increased sales volume and $1.5 million increase in other income resulting from higher harvesting activity on the Crown licensed timberlands during the year.

Costs were $40.5 million, compared to $38.0 million in the prior year. This is attributable to higher volumes sold, partially offset by 3% lower variable costs per m³, reflecting an increased proportion of sales made to closer proximity markets.

EBITDA for the twelve months ended December 31, 2010 was $15.4 million, compared to $10.8 million in the prior year while the EBITDA margin increased to 28% as compared to 22% in 2009.

NB Timberlands experienced two minor reportable incidents among employees and three reportable incidents among contractors during the year. We are pleased to report that there were no reportable environmental incidents during 2010.

Maine Timberlands

Maine Timberlands owns and operates 310,000 acres of freehold timberlands and is operated exclusively by third-party contractors.

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

	Year Ended December 31, 2010			*Year Ended December 31, 2009*		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**208.0**	**207.6**	**$ 10.7**	196.0	195.6	$ 11.7
Hardwood	**68.5**	**68.3**	**3.8**	45.3	44.6	2.2
Biomass	**15.1**	**15.2**	**0.2**	21.1	21.1	0.3
	291.6	**291.1**	**14.7**	262.4	261.3	14.2
Other sales			**0.4**			0.4
Net sales			**$ 15.1**			$ 14.6
EBITDA			**$ 3.9**			$ 4.2
EBITDA margin			**26%**			29%

Softwood, hardwood and biomass shipments were 208 thousand m^3, 68 thousand m^3 and 15 thousand m^3, respectively, for the year ended December 31, 2010. This represents an 11% increase in overall sales volume compared to the prior year, as a result of improved demand for hardwood pulpwood and spruce-fir sawlogs. Approximately 55% of sales volume was sold as sawlogs, 40% as pulpwood and 5% as biomass in 2010. This compares to 52% of sales volume sold as sawlogs, 39% as pulpwood and 8% as biomass in 2009.

Net sales for the twelve months ended December 31, 2010 totaled $15.1 million, a 3% increase from the prior year. In U.S. dollar terms, net sales increased 15% from the prior year primarily reflecting higher volumes across primary products and higher hardwood pulpwood pricing. The 10% depreciation of the U.S. dollar compared to the Canadian dollar during the year offset higher prices in U.S. dollar terms, resulting in a 6% decrease in average selling price per m^3 in Canadian dollar terms during this period.

Costs for the twelve months ended December 31, 2010 were $11.2 million, or $1.4 million higher than the prior year excluding the impact of prior year's land sale, primarily attributed to increased sales volume. This was offset partially by an decrease in variable costs per m^3 in Canadian dollar terms due to the depreciation of the U.S. dollar. In U.S. dollar terms, variable costs per m^3 were higher by 6% due to longer hauling distances with less sales made from the woodyard as compared to the prior year.

EBITDA for the twelve months ended December 31, 2010 was $3.9 million compared to $4.2 million in the prior year, while the EBITDA margin decreased from 29% to 26%.

For the twelve-month period ended December 31, 2010, there were no recordable safety incidents among employees and three reportable safety incidents among contractors from which the individuals have since fully recovered. We are pleased to report that there were no reportable environmental incidents during the year.

Financial Position

As at December 31, 2010, Acadian's balance sheet consisted of total assets of $217.9 million (2009 – $210.2 million), represented primarily by timberlands, logging roads and fixed assets of $180.5 million (2009 – $190.0 million) with the balance in cash and working capital of $16.9 million (2009 – $14.1 million), future income tax assets of $14.4 million (2009 – $nil) and intangible assets of $6.1 million (2009 – $6.1 million). Timberlands have been recorded at cost as determined through the purchase of these assets on formation of Acadian and are depleted and charged to operations in a systematic manner based on the utilization of the timber resources. Silviculture costs have been capitalized as they were incurred.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Acadian's principal sources of liquidity include cash earned from operations and a $10.0 million revolving credit facility. These sources, combined with existing cash and cash equivalents, are expected to allow the Company to meet its operating, debt service, capital expenditure and dividend requirements. As indicated previously, due to the seasonal nature of our business, it is typical that cash reserves are generated in the first quarter of the year and are then drawn down during periods such as the second quarter when harvesting conditions are not ideal. This remains unchanged from prior years.

The Company expects to pay quarterly dividends to the extent determined prudent by the Company's Board of Directors.

Management will continue to assess financing alternatives which may include the issuance of additional shares and debt when funding requirements such as potential acquisitions and debt maturities, present themselves.

Capital Resources

Borrowings

The Company has a $52.0 million bank credit facility consisting of a $42.0 million bank term credit facility and a $10.0 million revolving credit facility. As at December 31, 2010, the revolving credit facility was undrawn (December 31, 2009 – $5.5 million drawn). The term facility, which matures on February 27, 2011, is fully drawn, and bears interest based on the 30-day Banker's Acceptance rates. The Company also has a term loan facility of US$31.5 million. This facility bears interest at 4.67%, payable quarterly and expires on February 27, 2011. The Company has granted the lenders a security interest over its assets.

Both facilities contain certain restrictive covenants relating to debt incurrence, sale of assets, and maintenance of certain financial ratios. As at December 31, 2010, Acadian is in compliance with all financial covenants.

During the year, Acadian obtained a commitment letter from a major institutional lender for a US$10 million floating rate revolving loan and a 5 year, US$72.5 million loan to refinance its debt obligations at fixed interest rates, determined as US treasury yield plus margin. Closing of the loan is still pending finalization of required legal documentation but is expected to occur prior to the expected funding date of February 25, 2011. To mitigate market risk of US treasury yields changing prior to closing of the loan, Brookfield entered into a rate lock agreement on Acadian's behalf which upon maturity, Acadian assumed the settlement proceeds of. On February 1, 2011, the lender, at Acadian's request, fixed the interest rate on this loan resulting in an interest rate over the 5-year term of 3.97%, which will be partially offset with settlement proceeds of the derivative asset. Compared to the existing debt facilities, Acadian expects a reduced interest expense resulting from the lower effective interest rate and the Company will also benefit from a more flexible covenant package.

Outstanding Shares

As at December 31, 2010, 16,731,216 common shares were issued and outstanding, which represents an increase of 159,763 shares from December 31, 2009 resulting from the conversion of Acadian Timber Income Fund to a corporation and the issuance of shares to CellFor on January 1, 2010. The Company is authorized to issue an unlimited number of shares of the same class with equal rights and privileges. Shareholders are entitled to receive dividends as and when declared by the Directors of the Company and are entitled to one vote per share on all matters to be voted on by shareholders at each meeting of shareholders.

As at December 31, 2010, Brookfield owned 7,513,262 common shares. Brookfield's ownership interest is 45% of the outstanding common shares of Acadian.

OUTLOOK

The following contains forward-looking statements about Acadian Timber Corp.'s market outlook for fiscal 2011. Reference should be made to "Forward-Looking Statements" on page 25. For a description of material factors that could cause actual results to differ materially from the forward-looking statements in the following, please see the Risk Factors section on page 21 of this Annual Report and in our Annual Information Form available on our website at www.acadiantimber.com or www.sedar.com.

The economic outlook for the United States improved substantially in the second half of 2010 as a result of gains in international trade, a strong holiday shopping season and the tax compromise reached between the Obama administration and the Republican leadership which will extend lower tax rates on dividends and capital gains and include a temporary reduction in payroll taxes. Despite this improved outlook, the U.S. housing sector is expected to continue to lag as approximately 2.5 million vacant homes remain an overhang on the market. Consensus forecasts for U.S. housing predict an increase in housing starts to 680,000 units in 2011 up from 590,000 in 2010. The recovery is expected to continue in 2012 with a consensus forecast calling for 900,000 starts.

Acadian continues to benefit from smaller, non-industrial timberland owners withholding timber from the market. However, an ample supply of low cost Crown timber in New Brunswick is expected to continue to put pressure on selling prices for softwood sawlogs. Acadian has also benefited from high harvest levels on Twin Rivers Paper Company's Crown licensed timberlands which are managed by Acadian, resulting in a strong contribution from these management services to Acadian's net income in 2010. This strong Crown land services agreement contribution is expected to continue in 2011 as licensees maintain high harvest levels aimed at utilizing unused harvest volumes from the 2008 – 2009 period.

Markets for hardwood sawlogs and specialty products improved during 2010 and are expected to remain relatively stable through 2011. Acadian's major hardwood pulpwood customers continue to operate and take deliveries, and the recent sale of Domtar's Woodland pulp mill in Baileyville, Maine to International Grand Investment Corporation is expected to ensure a more consistent operating level for this key hardwood pulpwood customer going forward.

We expect 2011 to present improving, although uncertain, conditions and we're confident that Acadian will continue to demonstrate its adeptness in identifying and accessing market opportunities while keeping costs low.

ANALYSIS OF FOURTH QUARTER RESULTS

Summary of Fourth Quarter 2010 Results

The table below summarizes operating and financial data for Acadian:

Three Months Ended December 31 *(CAD millions, except where indicated)*		**2010**		2009
Total				
Sales volume (000s m^3)		**381.9**		343.0
Net sales	**$**	**20.5**	$	16.7
EBITDA		**6.4**		2.0
EBITDA margin		**31%**		12%
Free cash flow	**$**	**5.3**	$	1.3
Net income[1]		**5.4**		—
Dividends declared				
Class A shareholders		**0.8**		1.4
		0.8		1.4
Payout ratio		**15%**		108%

1 Net income includes the impact of the future income tax expense/recovery, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

Free cash flow and Dividends

Free cash flow was $5.3 million during the three months ended December 31, 2010 (the "fourth quarter"), which represents an increase of $4.0 million from the same period in 2009. Dividends declared during the fourth quarter to shareholders were $0.8 million, 57% lower than the total dividends declared in the fourth quarter of 2009. The following tables provide a reconciliation of net income, in accordance with GAAP, to EBITDA and free cash flow during each respective period:

Three Months Ended December 31 *(CAD millions)*		**2010**		2009
Net income[1]	**$**	**5.4**	$	—
Add (deduct):				
Interest expense on debt		**1.0**		0.7
Future income tax expense (recovery)		**(1.7)**		(0.3)
Depreciation and depletion		**1.7**		1.6
EBITDA	**$**	**6.4**	$	2.0
Add (deduct):				
Interest expense on debt		**(1.0)**		(0.7)
Silviculture and capital expenditures		**(0.1)**		—
Free cash flow	**$**	**5.3**	$	1.3
Dividends declared	**$**	**0.8**	$	1.4

1 Net income includes the impact of the future income tax expense/recovery, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

Results of Operations

For the three months ended December 31, 2010, Acadian generated net sales of $20.5 million on consolidated volumes of 382 thousand m³, compared with net sales of $16.7 million on consolidated volumes of 343 thousand m³ during the same period last year.

EBITDA for the fourth quarter was $6.4 million or 31% of sales, compared to EBITDA of $2.0 million or 12% of sales during the comparable period in 2009. Results in the quarter reflect improved demand for softwood sawlogs, resulting in greater sales volume of this higher margin product.

Future Income Tax Recovery

Included in net income for the three months ended December 31, 2010 is a non-cash future tax recovery of $1.7 million (2009 – $0.3 million). The future income tax liability of the Corporation is based on differences between the financial reporting and tax bases of assets and liabilities of its subsidiaries which have been measured using the substantially enacted tax rates and laws that are expected to be in effect at the time the differences are anticipated to reverse.

Segmented Results of Operations

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

	Three Months Ended December 31, 2010				*Three Months Ended December 31, 2009*			
(CAD millions)	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volume (000s m^3)	**300.9**	**81.0**	**—**	**381.9**	270.7	72.3	—	343.0
Net sales	**$ 16.4**	**$ 4.1**	**$ —**	**$ 20.5**	$ 13.3	$ 3.4	$ —	$ 16.7
EBITDA	**$ 5.6**	**$ 1.2**	**$ (0.4)**	**$ 6.4**	$ 2.5	$ 0.7	$ (1.2)	$ 2.0
EBITDA margin	**34%**	**29%**	**n/a**	**31%**	19%	21%	n/a	12%

NB Timberlands

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

	Three Months Ended December 31, 2010			*Three Months Ended December 31, 2009*		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**95.5**	**109.5**	**$ 5.6**	57.4	68.0	$ 3.8
Hardwood	**131.8**	**136.3**	**8.3**	148.7	143.9	7.6
Biomass	**55.2**	**55.1**	**0.6**	58.8	58.8	1.1
	282.5	**300.9**	**14.5**	264.9	270.7	12.5
Other sales			**1.9**			0.8
Net sales			**$ 16.4**			$ 13.3
EBITDA			**$ 5.6**			$ 2.5
EBITDA margin			**34%**			19%

Softwood, hardwood and biomass shipments were 110 thousand m^3, 136 thousand m^3 and 55 thousand m^3, respectively, during the fourth quarter, representing an 11% increase in sales volume over the same period in 2009. This increase reflects improved demand for softwood sawlogs relative to the fourth quarter of 2009. Approximately 36% of sales volume was sold as sawlogs, 46% as pulpwood and 18% as biomass in the fourth quarter. This compares to 30% of sales volume sold as sawlogs, 48% as pulpwood and 22% as biomass in the fourth quarter of 2009.

Net sales for the fourth quarter totaled $16.4 million compared to $13.3 million for the same period last year. This was primarily the result of the increase in sales volume, a higher value species mix and improved hardwood pulpwood pricing. The increase in other sales was primarily attributed to an increased contribution from our management of Crown licensed timberlands as a result of higher harvesting activity. The weighted average selling price was $48.10 in the fourth quarter of 2010, compared to $46.05 in the same period of 2009.

Costs for the fourth quarter were $10.8 million, comparable to the same period of 2009. Higher sales volumes were offset by lower variable costs per m^3 due to shorter haul distances and deliveries from Acadian's woodyard.

EBITDA for the fourth quarter was $5.6 million, compared to $2.5 million in the same period in 2009, while EBITDA margin increased from 19% to 34%.

NB Timberlands experienced one reportable incident among employees and one minor reportable incident among contractors during the fourth quarter. We are pleased to report that there were no reportable environmental incidents during the fourth quarter.

Maine Timberlands

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

	Three Months Ended December 31, 2010			Three Months Ended December 31, 2009		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**55.7**	**55.6**	**$ 2.9**	43.7	43.6	$ 2.1
Hardwood	**17.2**	**19.1**	**1.1**	21.2	21.2	1.1
Biomass	**6.1**	**6.3**	**—**	7.5	7.5	0.1
	79.0	**81.0**	**4.0**	72.4	72.3	3.3
Other sales			**0.1**			0.1
Net sales			**$ 4.1**			$ 3.4
EBITDA			**$ 1.2**			$ 0.7
EBITDA margin			**29%**			21%

Softwood, hardwood and biomass shipments were 56 thousand m³, 19 thousand m³, and 6 thousand m³, respectively, with total sales volume increasing by 12% over the fourth quarter of 2009. The increase in sales volume reflects improved contractor productivity, despite poor weather conditions in the fourth quarter of 2010. Approximately 57% of sales volume was sold as sawlogs, 35% as pulpwood and 8% as biomass during the fourth quarter. This compares to 43% of sales volume sold as sawlogs, 47% as pulpwood and 10% as biomass in the fourth quarter of 2009.

Net sales for the fourth quarter totaled $4.1 million, compared to $3.4 million for the same period last year. The year-over-year increase in net sales is a result of higher shipment volumes and a higher value species mix. The weighted average price across all products was $50.44 in the fourth quarter, compared to $45.27 in the same period of 2009, reflecting an 11% increase in Canadian dollar terms. Weighted average selling prices increased 15% in U.S. dollar terms during the fourth quarter.

Costs for the fourth quarter were $2.9 million, compared to $2.7 million for the same period in 2009. This increase reflects higher sales volume, offset partially by lower variable costs per m³ primarily due to the depreciation of the U.S. dollar compared to the Canadian dollar.

EBITDA for the fourth quarter was $1.2 million, compared to $0.7 million for the same period in 2009, while EBITDA margin increased from 21% to 29%.

Maine Timberlands had no recordable safety incidents among employees and two minor reportable incidents among contractors during the fourth quarter. We are pleased to report that there were no reportable environmental incidents during the fourth quarter.

SUPPLEMENTAL INFORMATION

Selected Consolidated Quarterly Information

The tables below set forth selected consolidated quarterly information for the last eight quarters. See "Additional Quarterly Information" section for the segmented quarterly results.

	2010				2009			
(CAD millions, except per share data and where indicated)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales volume (000s m³)	**382**	**346**	**270**	**401**	343	331	157	427
Net sales	**$ 20.5**	**$ 17.9**	**$ 12.2**	**$ 20.4**	$ 16.7	$ 14.4	$ 6.1	$ 26.2
EBITDA	**6.4**	**4.8**	**1.0**	**5.8**	2.0	1.3	(2.0)	10.8
Free cash flow	**5.3**	**3.6**	**(0.3)**	**5.0**	1.3	(0.3)	(2.4)	9.5
Net income (loss)[1]	**5.4**	**1.5**	**(1.5)**	**3.4**	—	(0.2)	(1.6)	11.1
Net income per share - basic	**0.32**	**0.09**	**(0.09)**	**0.20**	—	(0.01)	(0.10)	0.75
Net income per share - diluted	**0.32**	**0.09**	**(0.09)**	**0.20**	—	(0.01)	(0.10)	0.40

1 Net income includes the impact of future income tax recovery/expense, and depreciation and depletion expense, which are non-cash items recorded in each respective period. Net income for the first quarter of 2009 only, included the impact of the revaluation of the Class B Interest Liability of a subsidiary.

Additional Quarterly Information

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

NB Timberlands

	2010 Q4			2010 Q3			2010 Q2			2010 Q1		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**95.5**	**109.5**	**$ 5.6**	94.1	98.5	$ 5.2	71.6	72.4	$ 3.9	134.2	122.2	$ 6.3
Hardwood	**131.8**	**136.3**	**8.3**	102.0	96.5	5.5	73.0	99.1	5.7	140.9	141.7	7.7
Biomass	**55.2**	**55.1**	**0.6**	68.1	68.2	0.7	50.2	50.1	0.4	58.0	58.0	1.2
	282.5	**300.9**	**14.5**	264.2	263.2	11.4	194.8	221.6	10.0	333.1	321.9	15.2
Other sales			**1.9**			1.9			(0.2)			1.2
Net sales			**$ 16.4**			$ 13.3			$ 9.8			$ 16.4
EBITDA			**$ 5.6**			$ 3.7			$ 1.0			$ 5.1
EBITDA margin			**34%**			28%			10%			31%

Maine Timberlands

	2010 Q4			2010 Q3			2010 Q2			2010 Q1		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**55.7**	**55.6**	**$ 2.9**	58.4	58.4	$ 3.0	32.9	33.0	$ 1.7	61.0	60.6	$ 3.1
Hardwood	**17.2**	**19.1**	**1.1**	23.1	21.3	1.3	10.9	11.7	0.7	17.3	16.2	0.7
Biomass	**6.1**	**6.3**	**—**	3.0	2.9	0.1	3.7	3.7	—	2.3	2.3	0.1
	79.0	**81.0**	**4.0**	84.5	82.6	4.4	47.5	48.4	2.4	80.6	79.1	3.9
Other sales			**0.1**			0.2			—			0.1
Net sales			**$ 4.1**			$ 4.6			$ 2.4			$ 4.0
EBITDA			**$ 1.2**			$ 1.3			$ 0.2			$ 1.2
EBITDA margin			**29%**			28%			8%			30%

Corporate

	2010 Q4			2010 Q3			2010 Q2			2010 Q1		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	—	—	**$ —**	—	—	$ —	—	—	$ —	—	—	$ —
Hardwood	—	—	—	—	—	—	—	—	—	—	—	—
Biomass	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—
Other sales			—			—			—			—
Net sales			**$ —**			$ —			$ —			$ —
EBITDA			**$ (0.4)**			$ (0.2)			$ (0.2)			$ (0.5)
EBITDA margin			**n/a**			n/a			n/a			n/a

NB Timberlands

	2009 Q4			2009 Q3			2009 Q2			2009 Q1		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	57.4	68.0	$ 3.8	68.6	67.8	$ 3.5	36.3	41.2	$ 2.5	174.2	151.9	$ 9.1
Hardwood	148.7	143.9	7.6	137.5	125.5	6.4	34.0	70.1	3.0	123.8	93.2	5.1
Biomass	58.8	58.8	1.1	80.2	80.2	1.4	33.0	33.0	0.5	63.4	63.4	1.5
	264.9	270.7	12.5	286.3	273.5	11.3	103.3	144.3	6.0	361.4	308.5	15.7
Other sales			0.8			0.3			(0.3)			2.5
Net sales			$ 13.3			$ 11.6			$ 5.7			$ 18.2
EBITDA			$ 2.5			$ 1.3			$ (0.8)			$ 7.8
EBITDA margin			19%			11%			(14)%			43%

Maine Timberlands

	2009 Q4			2009 Q3			2009 Q2			2009 Q1		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	43.7	43.6	$ 2.1	38.5	40.9	$ 2.1	5.0	6.2	$ 0.1	108.8	104.9	$ 7.4
Hardwood	21.2	21.2	1.1	12.4	12.1	0.5	1.9	2.7	0.2	9.8	8.6	0.4
Biomass	7.5	7.5	0.1	4.1	4.1	0.1	4.1	4.1	—	5.4	5.4	0.1
	72.4	72.3	3.3	55.0	57.1	2.7	11.0	13.0	0.3	124.0	118.9	7.9
Other sales			0.1			0.1			0.1			0.1
Net sales			$ 3.4			$ 2.8			$ 0.4			$ 8.0
EBITDA			$ 0.7			$ 0.8			$ (0.6)			$ 3.3
EBITDA margin			21%			29%			(150)%			41%

Corporate

	2009 Q4			2009 Q3			2009 Q2			2009 Q1		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ —
Hardwood	—	—	—	—	—	—	—	—	—	—	—	—
Biomass	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—
Other sales			—			—			—			—
Net sales			$ —			$ —			$ —			$ —
EBITDA			$ (1.2)			$ (0.8)			$ (0.6)			$ (0.3)
EBITDA margin			n/a			n/a			n/a			n/a

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported period. As a result, actual results could materially differ from these estimates.

Acadian considers the following policies to be most critical in understanding the judgements that are involved in preparing the Corporation's consolidated financial statements and the uncertainties that could affect the Corporation's results of operations, financial position and cash flows.

Accounting for Timberlands and Logging Roads

Acadian's timberlands and logging roads are recorded at cost less accumulated depletion and depreciation. Depletion is recorded in a systematic manner based on the utilization of the timber resources. Depletion amounts are charged to operations based on a pro rata calculation of shares of timber harvested and relative values of timber present, and is applied against the historical cost of timberlands. Main logging roads and their associated bridges are depreciated on a straight-line basis over their estimated useful lives of twenty years.

Translation of Foreign Currencies

The currency of measurement of the Corporation's Canadian operations and U.S. operations are the Canadian dollar and U.S. dollar, respectively. Monetary assets and liabilities denominated in a currency other than the operation's currency of measurement are translated at exchange rates prevailing at the end of each reporting period with the associated gain or loss recorded in the consolidated statement of operations.

The accounts of self-sustaining operations in the United States are translated using the current rate method under which assets and liabilities are translated at exchange rates prevailing at the end of the period and revenues and expenses are translated at average exchange rates during the period. Gains or losses on translation are not included in the consolidated statement of operations, but are presented as a separate item in shareholders' equity.

Accounting for Cash Flow Hedging

For qualifying cash flow hedges, the derivative is recorded as an asset or liability at its fair value. The effective portion of the gain or loss on a derivative designated as a cash flow hedge is reported in other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Conversion to International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its implementation plan which outlines the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS for fiscal years beginning on or after January 1, 2011. The CICA plans to converge Canadian GAAP with IFRS, with the objective of moving towards the use of a single set of world-wide accounting standards, improving financial reporting and transparency. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which may significantly impact Acadian's processes and financial results. While we believe the adoption of IFRS will not have a material impact on Acadian's reported free cash flow, it is expected to have a material impact on Acadian's consolidated balance sheets and consolidated statements of operations and deficit.

Acadian has completed the planning phase of the conversion. Existing Canadian GAAP and IFRS differences have been identified, staff have been trained, and business impacts have been determined to be minimal. Management has identified the following significant accounting differences between Canadian GAAP and IFRS:

- In accordance with current Canadian GAAP, our standing timber assets are treated as property, plant and equipment and are, therefore, recorded at cost less accumulated depletion. Under IFRS and in accordance with IAS 41 — Agriculture ("IAS 41"), our standing timber assets are considered biological assets and will be measured at the end of each reporting period at fair value, less estimated point-of-sale costs. Fair value is generally determined based upon the expected future cash flows to be derived from the sale of timber, discounted to the measurement date. Changes in the fair value of standing timber after initial recognition will be recognized in income in the period in which the changes arise. Depending on the change in fair value in each reporting period, income could either be greater or less than under Canadian GAAP;

- Current Canadian GAAP requires the recognition of a depletion charge to income based on volume harvested. IAS 41 replaces this expense with a charge for fair value of timber harvested. This change would have decreased income in 2010;
- Current Canadian GAAP does not permit the recognition of the value of timber growth in a period, but IAS 41 requires that this value be recognized as an increase in fair value. This increase in fair value would have increased income in 2010;
- Current Canadian GAAP requires that silviculture expenditures be capitalized and included in the historical cost of standing timber, whereas IFRS does not directly address the issue of subsequent expenditures related to biological assets. As timberlands are carried at fair value at each measurement date, management believes it is appropriate to record silviculture expenditures as a period cost as the capitalization of such costs would be offset by an equivalent fair value adjustment in the accounting period. These amounts are discretionary and can vary significantly each year;
- Current Canadian GAAP requires that the logging roads, bridges and other fixed assets be carried at original cost less accumulated amortization, whereas IFRS allows an entity to make a policy election with respect to the subsequent measurement of these items. Acadian is planning to elect the revaluation method for logging roads and the cost method for bridges and other fixed assets. The use of the revaluation method for roads will eliminate the charge for amortization of these costs. This change would have increased income in 2010;
- Both Canadian GAAP and IFRS require that inventories are carried at the lower of cost and net realizable value. Net realizable value, under both Canadian GAAP and IFRS, is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Under Canadian GAAP the cost of logs held in inventory includes depletion, while under IFRS depletion will be replaced with a charge for the fair value of timber harvested. This charge, when added to the costs of harvest and delivery, will cause the value of inventory on Acadian's balance sheet to increase as cost, when determined in this manner, is expected to approximate market value. As Acadian's log inventory quantities are typically minimal, this change is not expected to have a significant impact on net income; and,
- When recording a transaction under current Canadian GAAP that does not qualify as a business combination, any excess of the carrying amount of future tax assets acquired over the consideration paid is recorded as a deferred credit. This deferred credit is amortized to income tax expense in proportion to the net reduction in the future income tax asset that gave rise to the deferred credit. However, under IFRS this excess would be recorded as a gain at the date of the transaction. This change will have the effect of increasing Acadian's net income by approximately $20.5 million in the first quarter of 2010 and decreasing it in subsequent periods as a result of the deferred credit not being amortized.

In addition to the significant differences noted above, the adoption of IFRS will require the application of IFRS 1 — First-time Adoption of International Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the optional exemptions available under IFRS 1, which we believe are significant to Acadian and that we expect to apply in preparing our first financial statements under IFRS:

- IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value. We expect to apply this exemption by measuring the value of land, roads and bridges at fair value;
- IAS 21 — The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. We expect to apply this allowance by deeming all cumulative translation differences to be zero; and,
- IFRS 1 allows for certain other optional exemptions; however, we do not expect such exemptions to be significant to our adoption of IFRS.

This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of our first annual IFRS reporting period, which we intend to be December 31, 2011. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified.

The current International Accounting Standard Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") are considering further modifications to IFRS which may ultimately change our preliminary analysis. Acadian will report under IFRS, on a comparative basis, starting with the first quarter of 2011.

Related Party Transactions

In the normal course of operations, the Corporation enters into various transactions on market terms with related parties which have been measured at exchange value and recognized in the consolidated financial statements. Acadian has one significant related party, Brookfield. As at December 31, 2010, Brookfield owned 7,513,262 Common shares representing approximately 45% of the outstanding shares of Acadian. Acadian is also a related party of Twin Rivers as a result of their common significant shareholder, Brookfield.

A summary of the significant related party transactions is provided below.

a. Acadian is party to fibre supply agreements whereby Acadian has agreed to provide fibre to Twin Rivers and Brookfield for periods of up to 20 years. In addition, Acadian has agreed to administer certain licenses on behalf of Twin Rivers. Total sales to Twin Rivers and Brookfield during the year ended December 31, 2010 totaled $25.6 million (2009 – $17.7 million) and $1.5 million (2009 – $1.6 million), respectively, which represented 29% (2009 – 26%) of consolidated total sales. Included in accounts receivable as December 31, 2010 is $2.5 million (2009 – $1.4 million) related to these agreements.

b. Acadian is party to an agreement with Brookfield, whereby Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided during the year ended December 31, 2010 were $2.1 million (2009 – $2.1 million). All fees have been fully paid in accordance with the services agreement.

c. There were no payments on the Class B Interest Liability of a subsidiary to Brookfield during the year ended December 31, 2010 (2009 – $0.3 million) as a result of the conversion of all units representing the Class B Liability of a subsidiary by an affiliate of Brookfield on February 3, 2009.

d. Maine Timberlands rents space in a shared office building from Katahdin Paper Company LLC (a wholly-owned subsidiary of Brookfield), which also provides certain administrative services to Maine Timberlands. Total costs paid for these services were $16 thousand in the year ended December 31, 2010 (2009 – $16 thousand).

e. Under the terms of the commitment to refinance existing debt obligations, Acadian will borrow US$72.5 million from a major institutional lender at fixed rates determined as US treasury yield plus margin. To mitigate market risk of US treasury yields changing prior to closing of the loan, Brookfield entered into a rate lock agreement on Acadian's behalf which upon maturity, Acadian assumed the settlement proceeds of. As at December 31, 2010, the derivative asset related to this agreement is valued at $1.6 million.

f. During the year ended December 31, 2009 Acadian sold timberlands to Brookfield for proceeds of $0.5 million, and recognized a gain of $0.5 million. During the period, Acadian purchased $0.4 million of timberlands from Brookfield. There were no such transactions during the year ended December 31, 2010.

Contractual Obligations

The Corporation has no material capital or operating lease obligations; however, it has three significant contractual obligations related to the supply of fibre to related parties and the provision of management services under a Crown License Agreement at the direction of a related party. See Related Party Transactions for further discussion of these contracts.

The table below summarizes the Corporation's debt obligations as at December 31, 2010.

		Payments Due by Period				
(CAD millions)	**Total Available**	**Total**	**Less Than One Year**	**1 to 3 Years**	**4 to 5 Years**	**After 5 Years**
Debt						
Bank term credit facility[1]	**$ 42.0**	**$ 42.0**	$ 42.0	$ —	$ —	$ —
Revolving credit facility	**10.0**	**—**	—	—	—	—
Term loan facility	**31.4**	**31.4**	31.4	—	—	—
	$ 83.4	**$ 73.4**	$ 73.4	$ —	$ —	$ —
Interest expense[2]		**$ 0.6**	$ 0.6	$ —	$ —	$ —

1 Represents principal of bank term facility, excluding the deferred extension fee incurred in the fourth quarter of 2009;

2 The following assumptions have been made with respect to interest rates for the periods noted in the table above:

- *Bank term debt credit facility variable interest at 5.45% per annum; and,*
- *Term loan facility fixed interest at 4.67% with a Canadian to U.S. dollar conversion of 0.9983.*

RISK FACTORS

The following information is a summary of certain risk factors and the potential impact these factors could have on the business, assets, financial condition, results of operations, cash flows, liquidity and/or free cash flow of Acadian, as well as on the ability of Acadian to pay dividends on the shares. Additional risks and uncertainties not presently known to Acadian, or that Acadian currently deems immaterial, may also impair the operations of Acadian. A more detailed discussion of the business environment and risks is contained in our Annual Information Form which is posted on our website and filed on SEDAR.

Dependence on Twin Rivers

Approximately 28% of Acadian's total sales for the year ended December 31, 2010 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers up until April 2010, and subsequently, Twin Rivers (23% for the year ended December 31, 2009). Under the Fibre Supply Agreement, Twin Rivers is permitted to permanently reduce its purchases by any amount, subject to certain notice periods. Additionally, Twin Rivers has the right to temporarily reduce the volume of fibre that it purchases as a result of market factors or the sale or closure (whether temporary or permanent) of any of its owned or managed mills while retaining the right to increase such volumes in the future up to the committed level. This right may restrict Acadian's ability to find replacement customers given the uncertainty of ongoing supply to which such replacement customers would be subject. In addition, the Crown licenses have been granted to Twin Rivers as the owner/operator of its mills. If Twin Rivers 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 Twin Rivers potentially losing management over the NB Crown Lands subject to these licenses. Such events could potentially eliminate the fees earned by Acadian in providing services relating to the NB Crown Lands, and thus would result in a reduction in free cash flow.

Dependence on the Lumber and Pulp and Paper Industries

Acadian's financial performance depends on the state of the lumber and pulp and paper industries. Depressed commodity prices of lumber, pulp or paper may cause Twin Rivers and/or other mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomic. Moreover, these operators may be required to temporarily suspend operations at one or more of their mills to bring production in line with market demand or in response to the market irregularities. Any of these circumstances could significantly reduce the amount of timber that such operators purchase from Acadian.

Dependence on the Housing, Construction, Repair and 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.

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

Highly Competitive Industry

Timberland companies operate in a highly competitive business environment in which companies compete, to a large degree, on the basis of price and also on the basis of service and ability to provide a steady supply of products over the long term.

In Acadian's markets, there are many suppliers of softwood and hardwood logs. In addition, Acadian may also be subject to increased competition from worldwide suppliers importing forest products, and/or subject to increased competition from a variety of substitute products.

Acadian's competitive position is also influenced by a number of other factors including: the availability, quality, and cost of labour; the cost of energy; the ability to attract and maintain long-term customer relationships; the quality of products and customer service; and foreign currency fluctuations.

Lack of Control with Twin Rivers' Crown Lands Management

Acadian's revenue from operations in respect of the Crown lands managed on behalf of Twin Rivers ("NB Crown Lands") is generated from the service fees it charges to Twin Rivers. Acadian has little control over these revenues as the Government of New Brunswick dictates the management fees that Twin Rivers receives and therefore indirectly influences the service fees to be charged by Acadian on harvesting from the NB Crown Lands.

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

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

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

Restrictions Imposed by Forestry and Environmental Regulations

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

Laws, regulations and related judicial decisions and administrative interpretations affecting Acadian's business are subject to change and new laws and regulations that may affect its business are frequently enacted. Some of these laws and regulations could impose on Acadian significant costs, penalties and liabilities for violations or existing conditions whether or not Acadian caused or knew about them. Acadian is subject to laws and regulations which relate to, among other things: the protection of timberlands, health and safety, the protection of endangered species, air and water quality, and timber harvesting practices.

Regions with frequent policy changes add volatility to revenue streams and depress timberland values. Historically, New Brunswick has had relatively stable forestry regulations. Forest regulation in Maine has experienced volatility in the past but has shown a consistent trend towards stabilization.

In connection with a variety of operations of Acadian, the Corporation may be required to make regulatory filings. Any of the government agencies could delay review of or reject any of Acadian's filings which could result in a delay or restriction in harvesting, replanting, thinning, insect control or fire control.

Limitations on Ability to Harvest

Weather conditions, timber growth cycles, access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict Acadian's harvesting, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural and man-made disasters. There can be no assurance that Acadian will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows.

Forest Management

Although management believes it follows best practices with regard to forest sustainability and general forest management, there can be no assurance that the established LRSY of the NB Timberlands and Maine Timberlands and management's forest management planning, including silviculture, will have the intended result of ensuring that Acadian's asset base appreciates over time. If management's estimates of merchantable inventory are incorrect or the LRSY is too high, harvesting levels of Acadian's timberlands may result in depletion of Acadian's timber assets.

Fuel and Energy Costs

Acadian relies almost exclusively on land transportation for delivering its timber and is therefore exposed to fluctuations in fuel cost. An increase in fuel cost may result in lower earnings and cash flows. In addition, many of Acadian's customers are high-energy consumers and, as a result, are themselves vulnerable to energy cost increases. If energy costs increase significantly, Acadian's customers may not be able to compete effectively and may have to reduce current operating volumes or close mills.

Geographic Concentration

Acadian's timberlands are concentrated in Maine and New Brunswick. Accordingly, if the level of production from these forests substantially declines or demand in the region were to decline for any reason, including closure of pulp, paper or lumber manufacturing operations in the region, such changes could have a material adverse effect on Acadian's overall harvest levels and its financial results.

Currency Risk

All of the net sales from the Maine Timberlands and a portion of the sales from the NB Timberlands, a significant portion of gross revenues earned, are in U.S. dollars. All expenses incurred in respect of the Maine Timberlands and a nominal amount of the expenses of NB Timberlands are in U.S. dollars. As a result, Acadian's cost competitiveness could be impacted by unfavourable fluctuations in currency exchange rates. In addition, the apparent historical correlation between currency rates and timber prices in regions within close proximity to the Canadian/U.S. border may weaken over time thereby undermining any hedge relating to the Maine Timberlands. Acadian's customers are also susceptible to currency value fluctuations which may negatively impact the sawmills and pulp and paper mills to which Acadian sells its fibre, and accordingly the quantity of fibre sales to such customers could decline.

Insurance

Acadian's business is subject to fires, drought, tree diseases, severe weather, unforeseen equipment breakdowns, or any other event, including any event of force majeure, which could result in material damages to Acadian. Insurance for companies who operate timberlands has not been available on commercially acceptable terms or, in some cases, has been unavailable.

Seasonality

Acadian's operations are subject to seasonal variations, and as a result Acadian's operating results vary from quarter to quarter. Harvesting activity can be compromised by inaccessibility to some sites during wet seasons resulting in decreased harvest levels. Results of one quarter will not be indicative of results that may be achieved in other quarters or for the full year.

Cyclicality

Acadian depends on the state of the lumber and pulp and paper industries. Demand for products from the lumber and pulp and paper industries is correlated with global economic conditions. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for such products, resulting in lower product prices and possible manufacturing downtime. This, in turn, may result in lower net sales, profits and cash flows for Acadian since lumber mills and pulp and paper mills are important customers to Acadian.

Non-Timber Income

The NB Timberlands and Maine Timberlands have several sources of non-timber income including various land leases for recreational and commercial use as well as a recreational access permit plan. Most of these revenues are not subject to long term agreements and as a result, any decrease in the recreational and commercial activities that lead to those revenues could impact Acadian.

Labour Relations

A portion of Acadian's workforce is unionized and, as a result, Acadian is required to negotiate the wages, benefits and other terms with many of its employees collectively. If Acadian is unable to negotiate acceptable contracts with any of its unions as existing agreements expire, Acadian could experience a significant disruption of its operations, higher ongoing labour costs and restriction of its ability to maximize the efficiency of its operations, which could have a material adverse effect on Acadian's operations and financial results.

Dependence on and Scarcity of Trained Labour

Acadian relies significantly on a limited number of entities to cut and haul harvested timber, as well as to conduct road building and silviculture activities. If any of these entities were to stop doing business with Acadian, Acadian's operations could be negatively impacted. In addition, there is a limited supply of trained foresters and trained operators/contractors in the New Brunswick and Maine regions which may result in increased costs to Acadian to retain its workforce.

Protection of Threatened or Endangered Species and Waterways

Federal, state and provincial laws and regulations protecting threatened or endangered species, waterways and wetlands or other environmental values may limit or prevent timber harvesting, road building and other activities of Acadian. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year, and other factors, but can range from less than one to several thousand acres. As Acadian gains additional information regarding the presence of threatened or endangered species on its timberlands, or if regulations become more restrictive, the amount of its timberlands subject to harvest restrictions could increase.

Aboriginal Claims

Aboriginal claims could adversely affect Acadian's ability to harvest timber. Canadian courts have recognized that aboriginal people may possess rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. In Canada, aboriginal groups have made claims in respect of land governed by Canadian authorities, which could affect a portion of the land covered by Twin Rivers' Crown licenses. Any settlements in respect of these claims could lower the volume of timber managed by Acadian on the NB Crown Lands and could increase the cost to harvest timber on such lands.

Undetected Environmental Liabilities

Acadian may currently own or may acquire properties subject to environmental and other liabilities, such as obligations to clean up or pay for the cleanup of contamination. While timberlands do not generally carry as high a risk of environmental contamination as industrial properties, the cost of cleanup of contaminated properties could increase Acadian's operating costs.

Dependence on Brookfield and Potential Conflicts of Interest

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

Taxation Risk

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

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

Forward-Looking Statements

This Management's Discussion & Analysis contains forward-looking information and other forward-looking statements within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Acadian Timber Corp. and its subsidiaries (collectively, "Acadian"), or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in this Annual Report includes, without limitation, statements made in sections entitled "Market Overview," "Free cash flow," "Capital Resources" and "Outlook," and other statements regarding management's beliefs, intentions, results, performance, goals, achievements, future events, plans and objectives, business strategy, access to capital, liquidity and trading volumes, dividends, taxes, capital expenditures, projected costs, and similar statements concerning anticipated future events, results, achievements, circumstances, performance or expectations that are not historical facts. These statements reflect management's current expectations regarding future events and operating performance, are based on information currently available to management and speak only as of the date of this Annual Report. All forward-looking statements in this Annual Report are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; changes in Canadian income tax law; economic situation of key customers; and other risks and factors discussed under the heading "Risk Factors" in each of the Annual Information Form dated March 26, 2010 and the Management Information Circular dated March 26, 2010 of Acadian Timber Corp. and other filings of the Corporation and Acadian with securities regulatory authorities available on SEDAR at *www.sedar.com.*

Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: anticipated financial performance; business prospects; strategies; regulatory developments; exchange rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the ability to obtain financing on acceptable terms, which are subject to change based on commodity prices, market conditions for timber and wood products, the economic situation of key customers, and the utilization of the tax basis resulting from the conversion from an income trust to a corporation. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this Annual Report are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward looking statements. Certain statements in this Annual Report may also be considered "financial outlook" for the purposes of applicable Canadian securities laws, and such financial outlook may not be appropriate for purposes other than this Annual Report. The forward-looking statements contained in this Annual Report are made as of the date of this Annual Report, and should not be relied upon as representing Acadian's views as of any date subsequent to the date of this Annual Report. Acadian Timber Corp. assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as required by applicable law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Acadian Timber Corp.:

The accompanying consolidated financial statements of Acadian Timber Corp. (the "Corporation") and all information in this annual report are the responsibility of management and have been reviewed and approved by the Corporation's Board of Directors. These consolidated financial statements and related notes have been prepared by management in conformity with accounting principles generally accepted in Canada and necessarily include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal controls is designed and operating effectively for the year ended December 31, 2010.

Ernst & Young LLP, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by Canadian generally accepted auditing standards and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls, and is ultimately responsible for reviewing and approving the consolidated financial statements and the management's discussion and analysis. The Audit Committee is composed of three independent directors who are not employees of the Corporation. The Audit Committee meets regularly with management and Ernst & Young LLP to review their activities and to discuss internal control, accounting, auditing and financial matters.

The Audit Committee recommends the appointment of the external auditors. The Audit Committee also meets quarterly to review interim and annual consolidated financial statements and related materials and reports its findings to the Board of Directors for its consideration in approving the consolidated interim and annual financial statements for public dissemination.

Reid Carter
President and Chief Executive Officer

Brian Banfill
Chief Financial Officer

February 8, 2011

AUDITORS' REPORT

To the Shareholders of Acadian Timber Corp.:

We have audited the accompanying consolidated financial statements of Acadian Timber Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Acadian Timber Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 8, 2011

Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31 *(CAD millions)*	Note		**2010**		2009
Assets					
Current assets					
Cash and cash equivalents		**$**	**7.3**	$	2.1
Accounts receivable and other assets	8		**7.2**		6.2
Derivative asset	8		**1.6**		—
Note receivable	3		**—**		4.0
Inventory			**0.8**		1.8
Future income tax asset	12		**2.0**		—
			18.9		14.1
Intangible assets			**6.1**		6.1
Timberlands, logging roads and fixed assets	4		**180.5**		190.0
Future income tax asset	12		**12.4**		—
		$	**217.9**	$	210.2
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	8	**$**	**4.5**	$	4.3
Dividends payable to shareholders			**0.8**		—
Debt	5		**73.8**		—
Deferred credit	12		**1.6**		—
			80.7		4.3
Deferred credit	12		**17.2**		—
Future income tax liability	12		**3.1**		13.9
Long-term debt	5		**—**		80.7
Shareholders' equity	7		**116.9**		111.3
		$	**217.9**	$	210.2

See accompanying notes to consolidated financial statements.

On Behalf of the Board

Reid Carter
President and Chief Executive Officer

David M. Mann
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the Years Ended December 31 *(CAD millions, except per share data)*	Note	**2010**	2009
Net sales		**$ 71.0**	$ 63.4
Operating costs and expenses			
Cost of sales		**46.0**	43.3
Selling, administration and other		**7.0**	8.6
Depreciation and depletion		**6.6**	7.1
		59.6	59.0
Operating earnings		**11.4**	4.4
Gain on sale of timberlands	8	**—**	(0.6)
Gain on Class B Interest Liability of a subsidiary	6	**—**	(4.7)
Interest			
Interest expense	5	**3.8**	3.1
Class B Interest Liability of a subsidiary	6	**—**	0.3
Earnings before income tax recovery		**7.6**	6.3
Future income tax recovery	12	**1.2**	3.0
Net income for the year		**8.8**	9.3
Deficit, beginning of year		**(23.0)**	(20.9)
Shareholders' dividends declared	14	**(3.6)**	(11.4)
Deficit, end of year		**$ (17.8)**	$ (23.0)
Net income per share – basic	7	**$ 0.53**	$ 0.58
Net income per share – diluted	7	**$ 0.53**	$ 0.30

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31 (CAD millions)	Note		**2010**		2009
Net income		**$**	**8.8**	$	9.3
Other comprehensive income (loss)					
Unrealized foreign currency translation gains (losses)	7		**(1.7)**		(6.0)
Fair value gains on derivatives designated as cash flow hedges (net of future income tax expense of $0.5 million and nil, respectively)	7		**1.1**		—
Comprehensive income		**$**	**8.2**	$	3.3

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31 *(CAD millions)*	Note	**2010**	2009
Cash provided by (used for):			
Operating activities			
Net income		**$ 8.8**	$ 9.3
Items not affecting cash:			
Future income tax recovery	12	**(1.2)**	(3.0)
Depreciation and depletion		**6.6**	7.1
Gain on sale of timberlands	8	**—**	(0.6)
Gain on Class B Interest Liability of a subsidiary	6	**—**	(4.7)
		14.2	8.1
Net change in non-cash working capital balances and other		**—**	(4.0)
		14.2	4.1
Investing activities			
Proceeds from sale of timberlands	8	**—**	0.6
Additions to Timberlands, logging roads and fixed assets	8	**(0.4)**	(0.8)
Silviculture expenditures		**(0.2)**	(0.1)
Issuance of note receivable	3	**—**	(4.0)
		(0.6)	(4.3)
Financing activities			
Dividends paid to shareholders	14	**(2.8)**	(12.2)
Deferred financing costs		**(0.1)**	—
Borrowing (repayment) on revolving credit facility	5	**(5.5)**	5.5
		(8.4)	(6.7)
Increase (decrease) in cash and cash equivalents during the year		**5.2**	(6.9)
Cash and cash equivalents, beginning of year		**2.1**	9.0
Cash and cash equivalents, end of year		**$ 7.3**	$ 2.1
Cash interest paid		**3.8**	3.4

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 (All figures in Canadian dollars unless otherwise stated)

1. GENERAL

In these notes "Acadian" means Acadian Timber Corp. and all of its consolidated operations, while the "Corporation" means Acadian Timber Corp. as a separate entity.

On January 1, 2010, Acadian Timber Income Fund (the "Fund") converted to Acadian Timber Corp. pursuant to a plan of arrangement under the Canada Business Corporations Act (the "Arrangement") with CellFor Inc. ("CellFor") which allowed for the conversion of the Fund from an income trust to a corporation. Prior to the conversion, the consolidated financial statements included the accounts of the Fund and its subsidiaries. The conversion is described further in Note 3.

Acadian owns and manages approximately 765,000 acres of freehold timberlands in New Brunswick ("NB Timberlands"), approximately 310,000 acres of freehold timberlands in Maine ("Maine Timberlands") and provides management services relating to approximately 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to over 100 regional customers.

As at December 31, 2010, affiliates of Brookfield Asset Management Inc. (collectively "Brookfield") own 7,513,262 common shares representing approximately 45% of the outstanding common shares of the Corporation. Acadian and Twin Rivers Paper Company ("Twin Rivers") are related parties as a result of a common significant shareholder.

On April 29, 2010 Fraser Papers Inc ("Fraser") completed the sale of its specialty papers business including Crown timber harvest rights, two Canadian sawmills, the Edmundston pulpmill and the Madawaska paper mill along with fibre supply agreements between Fraser and Acadian to Twin Rivers. References in this report to Twin Rivers include references to transactions and relationships with Fraser prior to the sale of these assets.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements present the results of operations and cash flows of Acadian for the year ended December 31, 2010 along with the comparative results for the year ended December 31, 2009. These consolidated financial statements include the accounts of Acadian and the entities over which it has control and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

These consolidated financial statements present Acadian as a corporation on and subsequent to January 1, 2010 and as Acadian Timber Income Fund prior thereto. All references to "dividends" refer to dividends paid or payable to holders of Acadian common shares on and subsequent to January 1, 2010 and to distributions paid or payable to Fund unitholders prior to the Arrangement. All references to "common shares" refer collectively to Acadian's common shares on and subsequent to January 1, 2010 and to Fund units prior to the Arrangement. All references to "shareholders" refer collectively to holders of Acadian's common shares on and subsequent to January 1, 2010 and to Fund unitholders prior to the Arrangement.

After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interest basis, which recognizes Acadian as the successor entity to the Fund. The continuity of interest basis requires that the comparative results within these consolidated financial statements are those previously presented by the Fund.

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during a period. Significant estimates include the determination of the carrying value of assets, and estimating the useful lives of timberlands, logging roads and fixed assets. Actual results could differ from those estimates.

Seasonality

Due to the seasonal nature of Acadian's timberland operations, the first, third and fourth quarters of the fiscal year typically account for, and are expected in the future to account for, a greater portion of revenue and net income individually than the second quarter of each fiscal year. This seasonal pattern may cause Acadian's revenue and net income to vary significantly from quarter to quarter.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during a period. Significant estimates include the determination of the carrying value of assets, and estimating the useful lives of timberlands, logging roads and fixed assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash in the bank and short-term deposits with a remaining term to maturity at the time of purchase of less than ninety days. Cash equivalents were $nil as at December 31, 2010 (2009 – $0.6 million), with a weighted average effective interest rate of nil (2009 – 0.25%).

Inventories and Cost of Sales

Inventories consist primarily of timber and seedlings and are recorded at the lower of average cost and net realizable value. Cost of sales includes predominantly cutting, harvesting and transportation costs as well as costs for access roads and passages.

Timberlands and Logging Roads

Timberlands and logging roads are recorded at cost less accumulated depletion. Depletion of the timberlands is recorded in a systematic manner based on the utilization of the timber resources. Depletion amounts are charged to operations based on a pro rata calculation of shares of timber harvested and relative values of timber present, and is applied against the historical cost of timberlands. Main logging roads and their associated bridges are depreciated on a straight-line basis over their estimated useful lives of twenty years.

Silviculture costs are capitalized to timberlands.

Fixed Assets

Fixed assets consist of buildings and operating equipment. These assets are recorded at cost and are depreciated on a straight-line basis over their useful lives, which is currently 20 years for buildings and 10 years for operating equipment.

Revenue Recognition

Net sales are net of discounts and rebates to customers. Revenue is recognized when the risks and rewards of ownership pass to the purchaser, which is generally when timber is delivered to the purchaser and actual quantities delivered are determined. Sales are governed by standard industry terms and in some cases by contract.

Harvesting, transportation and other services are performed under contract for Crown licensees and sub-licensees on Crown Lands. Acadian does not take title to the timber it cuts on Crown Lands and all costs incurred with respect to Crown Lands are recovered from Crown licensees or sub-licensees. Revenue from services performed for these licensees and sub-licensees consist of management fees. Management fee revenues are recognized net of the costs to perform these services upon the delivery of the timber.

Intangible Assets

Intangible assets represent the Crown Lands Services Agreement between NB Timberlands and Twin Rivers whereby NB Timberlands has agreed to provide various services relating to the Crown Lands in consideration for a fee from Twin Rivers per cubic metre of fibre harvested from these lands. The Crown Lands Services Agreement has a term equal to the term of the Crown Licenses, including any renewal terms, which is considered indeterminable as at December 31, 2010, and thus the carrying value of this contract is not being amortized. Management tests the carrying value of this asset for impairment annually, or more frequently if events or changes in circumstances indicate that this asset may be impaired.

Class B Interest Liability of a Subsidiary

The Class B Interest Liability represented preferred interests in the Maine Timberlands. The preferred interests were convertible into shares at the option of the holder and were treated as a liability of the Maine Timberlands for accounting purposes.

The Class B interest liability had been classified as held-for-trading for accounting purposes, with the value of the liability measured at each reporting date to reflect the market price of the shares and current exchange rates. Changes in value were recorded in the consolidated statement of operations.

On February 3, 2009, Brookfield converted all shares representing the Class B liability of a subsidiary into Common shares of the Corporation (Note 6).

Translation of Foreign Currencies

The currency of measurement of the Corporation's Canadian operations and U.S. operations is the Canadian dollar and U.S. dollar, respectively. Monetary assets and liabilities denominated in a currency other than the operation's currency of measurement are translated at exchange rates prevailing at period end with the associated gain or loss recorded in the consolidated statement of operations.

The accounts of the Corporation's self-sustaining operations are translated using the current rate method under which assets and liabilities are translated at exchange rates prevailing at the end of the period and revenues and expenses are translated at average exchange rates during the period. Gains or losses on translation are not included in the consolidated statement of operations, but are presented as a separate item in shareholders' equity.

NB Timberlands enters into sales transactions denominated in U.S. dollars and the related revenues and accounts receivables are subject to exchange rate fluctuations. As a result, the Acadian's earnings may be adversely affected by exchange rate fluctuations.

Financial Instruments

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

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

Income Taxes

The Corporation follows the liability method of tax allocation, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred Financing Costs

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

Cash Flow Hedges

As a qualifying cash flow hedge, the derivative is recorded as an asset or liability at its fair value. The effective portion of the gain or loss on a derivative designated as a cash flow hedge is reported in other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

3. CORPORATE CONVERSION

On January 1, 2010, the Corporation completed the Arrangement with CellFor which allowed for the conversion of the Fund from an income trust to a corporation. Pursuant to the Arrangement, the Fund's unitholders received one common share of CellFor for each Trust Unit held on January 1, 2010 and CellFor changed its name to Acadian Timber Corp. Upon completion of the Arrangement, Acadian indirectly owns and operates the existing business of the Fund, and the existing trustees of the Fund and management of the Fund became the directors and management of Acadian. Acadian retained and licensed certain business assets of CellFor related to the development of superior spruce stock (the "Retained Assets"). Concurrent with and subsequent to the signing of the definitive documents in the fourth quarter of 2009, Acadian loaned $4.0 million to CellFor (the "CellFor Loan").

Pursuant to the plan of Arrangement, CellFor transferred all of its assets (other than the Retained Assets) to a new subsidiary ("New Cellfor") and all of Cellfor's liabilities (other than the liability relating to the CellFor loan) were repaid, settled or assumed by New Cellfor. All of the securities of New Cellfor were distributed to the CellFor security holders. New CellFor has agreed to indemnify Acadian for losses or damages that may have resulted from the activities of CellFor prior to the conversion.

Total consideration paid to CellFor was $5.0 million comprised of 159,763 shares of Acadian, valued at $1.0 million, and the assumption of the loan payable to Acadian for $4.0 million. Coincident with the completion of the plan of Arrangement, the CellFor Loan and the loan payable to Acadian for $4.0 million were settled in full. Subsequent to completion of the Arrangement on January 1, 2010, the Corporation had 16,731,216 shares issued and outstanding.

4. TIMBERLANDS, LOGGING ROADS AND FIXED ASSETS

As at December 31, 2010 *(CAD millions)*		**Book Value**		**Accumulated Depletion and Depreciation**		**Net Book Value**
Timberlands	$	**189.0**	$	**(31.9)**	$	**157.1**
Land		**10.3**		**—**		**10.3**
Logging roads and bridges		**14.8**		**(3.3)**		**11.5**
Buildings and equipment		**2.3**		**(0.7)**		**1.6**
	$	**216.4**	$	**(35.9)**	$	**180.5**

As at December 31, 2009 *(CAD millions)*		Book Value		Accumulated Depletion and Depreciation		Net Book Value
Timberlands	$	192.6	$	(26.7)	$	165.9
Land		10.5		—		10.5
Logging roads and bridges		14.9		(2.7)		12.2
Buildings and equipment		1.9		(0.5)		1.4
	$	219.9	$	(29.9)	$	190.0

5. DEBT

At December 31, debt consisted of the following:

(CAD millions)		**2010**		2009
Bank term credit facility, repayable in February 2011	$	**42.0**	$	42.0
Revolving credit facility		**—**		5.5
Less: Deferred debt issuance costs		**—**		(0.3)
		42.0		47.2
Term loan facility, repayable in February 2011		**31.8**		33.5
	$	**73.8**	$	80.7

At December 31, 2010, Acadian has a term credit facility of up to $42.0 million and a revolving credit facility of up to $10.0 million. The term credit facility bears interest at floating rates which for the period ended December 31, 2010 was based on 30-day Banker's Acceptance rates. As at December 31, 2010, the effective interest rate on the term credit facility is 5.45%. The revolving credit facility bears interest at 30-day Banker's Acceptance rates and has customary extension features. Floating interest rates give rise to interest rate risk as earnings and cash flows may be negatively impacted by fluctuations in interest rates. As at December 31, 2010, Acadian has borrowed $42.0 million under the term facility (2009 - $42.0 million) and $nil under the revolving facility (2009 - $5.5 million). As security for these facilities, Acadian has granted the lenders a security interest over the assets of the NB Timberlands. These facilities have certain restrictive covenants relating to debt incurrence and the sale of assets and require Acadian to maintain certain financial ratios (Note 10). As at December 31, 2010, Acadian was in compliance with all covenants.

The Maine Timberlands have a term loan facility for up to US$31.5 million which was fully drawn as at December 31, 2010. The carrying amount of the facility includes US$0.4 million of deferred financing costs payable upon maturity of the facility. The facility bears interest at 4.67% and expires on February 27, 2011. The fair value of the secured term loan facility is estimated to be US$31.6 million (2009 – US$32.4 million) as compared to the carrying value of US$31.5 million. As security for this facility, Maine Timberlands has granted the lenders a security interest over its assets. The facility has certain restrictive covenants relating to debt incurrence and the sale of assets and requires Maine Timberlands to maintain certain financial ratios (Note 10). As at December 31, 2010, Maine Timberlands was in compliance with all covenants.

As at December 31, 2010, Acadian has a commitment letter from a major institutional lender for a US$10 million floating rate revolving loan and a 5 year, US$72.5 million loan to refinance its debt obligations at fixed interest rates, determined as US treasury yield plus margin. Closing of the loan is still pending finalization of required legal documentation but is expected to occur prior to the expected funding date of February 25, 2011. To mitigate market risk of US treasury yields changing prior to closing of the loan, Brookfield entered into a rate lock agreement on Acadian's behalf which upon maturity, Acadian assumed the settlement proceeds of (note 8). On February 1, 2011, the lender, at Acadian's request, fixed the interest rate on this loan resulting in an interest rate over the 5-year term of 3.97%, which will be partially offset with settlement proceeds of the derivative asset.

6. CLASS B INTEREST LIABILITY OF A SUBSIDIARY

The Class B Interest Liability represented 4,507,030 preferred interests in the Maine Timberlands which were converted into units of the Fund on February 3, 2009 by an affiliate of Brookfield. The preferred interests were entitled to a fixed monthly cumulative preferential dividend equal to the lesser of $0.075625 and the most recently announced distribution per unit of the Fund. These interests were convertible at the option of the holder on a one for one basis into units of the Fund or, at the sole discretion of Acadian, into cash equal to the full market value of these units on the date of conversion.

The Class B Interest Liability was a Canadian dollar liability of the Maine Timberlands. As the currency of measurement of Maine Timberlands is the U.S. dollar, the liability was marked to market at each balance sheet date based on the change on the value of the units of the Fund and the U.S. to Canadian dollar exchange rate with the change recorded in income for the period. As of the date of conversion, the revaluation of this interest resulted in a gain of $4.7 million, which is comprised of a $4.1 million mark-to-market gain plus an additional $0.6 million foreign exchange gain due to the weakening of the Canadian currency in the period.

7. SHAREHOLDERS' EQUITY

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

(CAD millions)		**2010**		2009
Shares issued and outstanding – 16,731,216 shares (2009 - 16,571,453 shares)	**$**	**140.1**	$	139.1
Accumulated other comprehensive income (loss)				
Foreign currency translation losses		**(6.5)**		(4.8)
Fair value gains on derivatives designated as cash flow hedges (net of future income tax expense of $0.5 million and nil, respectively)		**1.1**		—
Deficit		**(17.8)**		(23.0)
Total	$	**116.9**	$	111.3

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) reflects unrealized gains (losses) on the translation of the financial statements of the Maine Timberlands and fair value gains on derivatives designated as cash flow hedges. Accumulated other comprehensive income (loss) as at December 31 is as follows:

Years Ended December 31 *(CAD millions)*		**2010**		2009
Balance, beginning of period	**$**	**(4.8)**	$	1.2
Other comprehensive income (loss)				
Unrealized loss on translation of financial statements		**(1.7)**		(6.0)
Fair value gains on derivatives designated as cash flow hedges		**1.1**		—
Balance, end of period	**$**	**(5.4)**	$	(4.8)

The company issued 159,763 shares on January 1, 2010 as part of the corporate conversion discussed in Note 3. As a result, the number of shares issued and outstanding as at December 31, 2010 increased to 16,731,216 from 16,571,453 at December 31, 2009.

Basic net income per share is determined by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share for the year ended December 31, 2010, and the respective comparable period, was calculated as follows:

Reconciliation to net income:

Years Ended December 31 *(CAD millions)*	**2010**	2009
Net income	**$ 8.8**	$ 9.3
Add (deduct)		
Interest expense of Class B Interest Liability of a subsidiary	**—**	0.3
Gain on Class B Interest Liability of a subsidiary	**—**	(4.7)
Diluted net income available to shareholders	**$ 8.8**	$ 4.9

Reconciliation of the number of shares:

Years Ended December 31 *(CAD thousands)*	**2010**	2009
Weighted average number of shares		
Common shares	**16,731**	16,151
Basic weighted average number of shares	**16,731**	16,151
Conversion of Class B Interest Liability of a Subsidiary	**—**	420
Diluted weighted average number of shares	**16,731**	16,571

8. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Corporation enters into various transactions on market terms with related parties which have been measured at exchange value and recognized in the consolidated financial statements. Acadian has one significant related party, Brookfield. As at December 31, 2010, Brookfield owned 7,513,262 Common shares representing approximately 45% of the outstanding shares of Acadian. Acadian is also a related party of Twin Rivers as a result of their common significant shareholder, Brookfield.

A summary of the significant related party transactions is provided below.

a. Acadian is party to fibre supply agreements whereby Acadian has agreed to provide fibre to Twin Rivers and Brookfield for periods of up to 20 years. In addition, Acadian has agreed to administer certain licenses on behalf of Twin Rivers. Total sales to Twin Rivers and Brookfield during the year ended December 31, 2010 totaled $25.6 million (2009 – $17.7 million) and $1.5 million (2009 – $1.6 million), respectively, which represented 29% (2009 – 26%) of consolidated total sales. Included in accounts receivable as December 31, 2010 is $2.5 million (2009 – $1.4 million) related to these agreements.

b. Acadian is party to an agreement with Brookfield, whereby Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided during the year ended December 31, 2010 were $2.1 million (2009 – $2.1 million). All fees have been fully paid in accordance with the services agreement.

c. There were no payments on the Class B Interest Liability of a subsidiary to Brookfield during the year ended December 31, 2010 (2009 – $0.3 million) as a result of the conversion of all units representing the Class B Liability of a subsidiary by an affiliate of Brookfield on February 3, 2009.

d. Maine Timberlands rents space in a shared office building from Katahdin Paper Company LLC (a wholly-owned subsidiary of Brookfield), which also provides certain administrative services to Maine Timberlands. Total costs paid for these services were $16 thousand in the year ended December 31, 2010 (2009 – $16 thousand).

e. Under the terms of the commitment to refinance existing debt obligations, Acadian will borrow US$72.5 million from a major institutional lender at fixed rates determined as US treasury yield plus margin. To mitigate market risk of US treasury yields changing prior to closing of the loan, Brookfield entered into a rate lock agreement on Acadian's behalf which upon maturity, Acadian assumed the settlement proceeds of (Note 5). As at December 31, 2010, the derivative asset related to this agreement is valued at $1.6 million.

f. During the year ended December 31, 2009 Acadian sold timberlands to Brookfield for proceeds of $0.5 million, and recognized a gain of $0.5 million. During the period, Acadian purchased $0.4 million of timberlands from Brookfield. There were no such transactions during the year ended December 31, 2010.

9. SEGMENTED INFORMATION

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

For the Year Ended December 31, 2010 (CAD millions)	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 31.7	$ 21.0	$ 10.7	$ —
Hardwood	31.0	27.2	3.8	—
Biomass and other	8.3	7.7	0.6	—
Total net sales	71.0	55.9	15.1	—
Operating costs	(53.0)	(40.5)	(11.2)	(1.3)
Earnings (loss) before under noted	18.0	15.4	3.9	(1.3)
Depletion and depreciation	(6.6)	(4.1)	(2.5)	—
Operating earnings (loss)	11.4	11.4	1.3	(1.3)
Interest expense, net	(3.8)			
Future income tax expense	1.2			
Net Income	$ 8.8			
Additions to timberlands, logging roads, bridges and fixed assets	$ 0.4	$ 0.4	$ —	$ —
Silviculture expenditures	0.2	0.2	—	—
Timberlands, logging roads, fixed assets and intangible assets	180.5	116.2	64.3	—
Total assets	217.9	130.0	67.2	20.7

For the Year Ended December 31, 2009 *(CAD millions)*	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 30.6	$ 18.9	$ 11.7	$ —
Hardwood	24.3	22.1	2.2	—
Biomass and other	8.5	7.8	0.7	—
Total net sales	63.4	48.8	14.6	—
Operating costs	(51.9)	(38.0)	(11.0)	(2.9)
Earnings (loss) before under noted	11.5	10.8	3.6	(2.9)
Depletion and depreciation	(7.1)	(4.4)	(2.7)	—
Operating earnings (loss)	4.4	6.4	0.9	(2.9)
Gain on sale of timberlands	0.6	—	0.6	—
Earnings (loss) before under noted items	$ 5.0	$ 6.4	$ 1.5	$ (2.9)
Gain on Class B Interest Liability of a subsidiary	4.7			
Interest expense, net	(3.4)			
Future income tax expense	3.0			
Net income	$ 9.3			
Additions to logging roads and fixed assets	$ 0.8	$ 0.5	$ 0.3	$ —
Silviculture expenditures	0.1	—	0.1	—
Timberlands, logging roads, fixed assets and intangible assets	196.1	125.8	70.3	—
Total assets	210.2	133.6	72.1	4.5

During the year ended December 31, 2010, approximately 27% of consolidated total sales were originated with customers domiciled in the U.S. with the balance in Canada (2009 – 24% of consolidated total sales). During the same period approximately 23% of consolidated total sales were denominated in U.S. dollars (2009 – 25% of consolidated total sales).

Acadian outsources much of its harvesting, transportation and other services which comprise the majority of its cost of sales. For the year ended December 31, 2010, Acadian's top three suppliers accounted for approximately 20%, 13% and 12%, respectively, of its cost of sales (2009 – 19%, 11% and 10%, respectively).

Acadian sells its products to many forest product companies in North America. For the year ended December 31, 2010, related parties (Note 8) and the next largest customer accounted for 29% and 10% of total sales, respectively (2009 – 26% and 7%, respectively). The Corporation is exposed to credit risk in the event of non-performance by its counterparties, which includes the non-collection of accounts receivables. The Corporation's subsidiaries perform on-going credit evaluations of their customers' financial positions and do not anticipate non-performance by their counterparties. Accounts receivable from the top three customers as at December 31, 2010 amounted to approximately 44% of accounts receivable (2009 – 33%).

10. CAPITAL DISCLOSURES

Acadian's capital structure is comprised of shareholders' equity inclusive of comprehensive income (loss), and long term loan facilities, which include current portions.

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

Acadian monitors its capital structure to ensure compliance with its financial covenants with debtholders. These financial covenants include a funded debt to capitalization ratio (book value of equity of the NB Timberlands) and an interest coverage ratio in respect to the bank term credit facility and a debt service coverage ratio in respect to the term loan credit facility.

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

As at December 31 *(CAD millions, except coverage ratios)*		**2010**		2009
Funded debt	$	**42.0**	$	47.5
Capitalization		**132.3**		131.9
Funded debt / Capitalization (maximum 42.5%)		**31.7%**		36.0%

For the year ended December 31 *(CAD millions, except coverage ratios)*				
LTM EBITDA	$	**15.4**	$	10.8
LTM Interest for period		**2.2**		1.4
Interest coverage (minimum 3.0)		**7.0**		7.7

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

For the Year Ended December 31 *(USD millions, except coverage ratios)*		**2010**		2009
LTM EBITDA	$	**3.8**	$	3.6
Capital expenditure		**—**		(0.3)
Cash flow		**3.8**		3.3
LTM Interest	$	**1.5**	$	1.5
Debt service coverage ratio (minimum 1.25)		**2.5**		2.2

11. FINANCIAL INSTRUMENTS

Financial assets and liabilities classified as held-for-trading are measured at fair value as at the balance sheet date with all realized gains or losses and unrealized holdings gains and losses resulting from the change in fair value included in net income (loss) in the period in which they arise; these include cash and cash equivalents. Accounts receivable, note receivable and other assets have been classified as loans and receivables, which are accounted for at amortized cost, which approximates their carrying value given the short-term nature of these receivables. Accounts payable and accrued liabilities, dividends payable to shareholders and long-term loan facilities, including current portions, have been classified as other financial liabilities which are accounted for at amortized cost. Derivative asset is measured at fair value.

Financial Risk Management

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

Foreign Exchange Risk

Acadian owns and manages timberlands in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian and U.S. dollars. The functional currency of the Maine Timberlands is the U.S. dollar and the functional currency of the NB Timberlands is the Canadian dollar. Acadian's reporting currency is the Canadian dollar. Acadian's most significant foreign currency risk exposure arises due to its investment in the Maine Timberlands. Accordingly, the impact of a strengthening (deteriorating) Canadian dollar will reduce (increase) the net income (loss) of Acadian, and will also result in an other comprehensive (gain) loss on the revaluation of the Maine Timberlands' assets in a given period. During the year ended December 31, 2010, a $0.01 appreciation (depreciation) in the period end U.S. to Canadian dollar foreign exchange rates, all else being equal, would not have affected net income or cash flow from operations by a significant amount, and would have impacted other comprehensive income by approximately $0.4 million. The foreign exchange risk arising on the translation of the Maine Timberlands' financial statements is considered to be a financial reporting risk that does not represent a significant operating risk.

The objective of Acadian's foreign exchange risk management activities is to minimize foreign exchange exposures that would have an impact on its operating performance. All of the NB Timberlands expenses and a significant proportion of its revenues are incurred in Canadian dollars. As such, the financial reporting and operational risk associated with the revaluation of NB Timberlands revenues and accounts receivables denominated in U.S. dollars is considered immaterial. Management continues to monitor the operational impact of all foreign exchange exposure, and will consider alternatives, as required, to ensure that this risk is maintained at prudent levels.

Interest Rate Risk

Acadian's interest rate risk arises from the floating interest rate bank term credit facility (Note 5). A change in Banker's Acceptance rates will result in variability in the interest expense of Acadian, impacting its consolidated net income. As at December 31, 2010, a 25 bps increase (decrease) in Banker's Acceptance rates, all else being equal, would have resulted in an increase (decrease) of the interest expense recorded in the year of $0.1 million per annum. Additionally, Acadian has interest rate risk arising from the rate lock agreement. A 25bps increase (decrease) in U.S. Treasury rates would result in a $0.8 million increase (decrease) in other comprehensive income.

Additionally, a change in interest rates will also expose Acadian to variability in the fair value of the Maine Timberlands' term loan facility, but would have no impact on the reporting value of the debt facility (Note 5). As at December 31, 2010, a 25 bps increase (decrease) in U.S. treasury rates, all else being equal, would have resulted in an immaterial decrease (increase) in the fair value of the term loan facility.

Other Price Risk

Acadian is exposed to commodity price risk as its financial performance is dependent on the selling prices of its products and the costs incurred in harvesting its timber. The markets for timber are cyclical and are influenced by a variety of factors beyond Acadian's control. For example, the market prices for timber can be affected by changes in regional and global demand, global supply and economic conditions, including increased competition from a variety of substitute products. Additionally, Acadian's operating expenses can be impacted by fuel cost increases. Acadian relies almost exclusively on land transportation, and therefore may be more susceptible to fuel cost increases than other timberland companies which rely more heavily on other transportation methods that are less exposed to fuel prices. Accordingly, commodity price variations may impact Acadian's sales, costs of sales, cash flows and earnings. Furthermore, weakness in the market prices of its timber products will also have an effect on Acadian's ability to attract additional capital, the cost of that capital and the value of its timberland assets.

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

Credit Risk

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

The objective of managing counterparty credit risk is to prevent losses in financial assets. Cash and cash equivalents are invested with counterparties meeting minimum credit quality requirements. With respect to outstanding accounts receivable, NB Timberlands and Maine Timberlands each assess the credit quality of the counterparties, including customers, taking into account their financial position, past experience and other factors. In cases where the credit quality of a client does not meet Acadian's credit requirements, a cash deposit is received before any timber is harvested and sold. Management, upon evaluating all open balances as at December 31, 2010, does not anticipate any defaults by its counterparties, and accordingly has not recorded an allowance against outstanding receivables. Pursuant to their respective terms, all outstanding accounts receivable are current with the exception of approximately $0.1 million.

Liquidity Risk

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

Additionally, management assesses the nature and timing of discretionary payments in an effort to mitigate any impact on the financial condition or results of operations of Acadian. As at December 31, 2010, the accounts payable and accrued liabilities and dividends payable of Acadian are due in less than 30 days.

Fair Value of Financial Assets and Liabilities

Canadian GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liabilitiy in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

As of December 31, 2010, the derivative asset was classified as Level 2 at a value of $1.6 million.

12. INCOME TAXES

On January 1, 2010, Acadian converted from a publicly traded income trust to a publicly traded corporation by way of a plan of arrangement with CellFor Inc. for cash and share consideration of $5.0 million. The future income tax asset arising from acquired tax attributes in relation to the Arrangement was determined to be approximately $25.6 million. As a result of the Arrangement, Acadian recorded a deferred credit of $20.6 million relating to the difference between the future income tax asset of $25.6 million and the amount paid to the shareholders of CellFor Inc. The accounting for the deferred credit is in accordance with the CICA's Emerging Issues Committee Abstract 110 — "Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations," the credit is being amortized to income tax expense in proportion to the net reduction in the future income tax asset that gave rise to the deferred credit.

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

For the year ended (CAD millions)	**2010**	2009
Current	**$ —**	$ —
Future	**(1.2)**	(3.0)
Income tax recovery	**$ (1.2)**	$ (3.0)

For the year ended (CAD millions)	**2010**	2009
Income before income taxes	**$ 7.6**	$ 6.3
Tax expense at statutory rate	**$ 2.3**	$ 1.7
Income of Corporation distributed	**—**	(3.0)
Rate Differential	**(0.2)**	(0.9)
Permanent differences	**(0.3)**	(1.2)
Impact of ceonversion from trust to a corporation	**(0.5)**	—
Amortization of deferred credit	**(1.8)**	—
Adjustment to valuation allowance	**(0.7)**	—
Other income not taxed	**—**	2.7
Income rate reduction	**—**	(1.9)
Other	**—**	(0.4)
Future income tax recovery	**$ (1.2)**	$ (3.0)

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future tax asset and liabilities are as follows:

For the year ended December 31 *(CAD millions)*		**2010**		2009
Timberlands, logging roads and fixed assets	**$**	**(9.3)**	$	(12.4)
Intangible assets		**(3.7)**		(1.4)
Financing and other		**1.3**		0.8
Derivative asset		**(0.4)**		—
Valuation allowance		**(0.2)**		(0.9)
Future tax liability		**(12.3)**		(13.9)
SRED pool		**12.8**		—
Investment tax credits, net		**10.8**		—
Net future tax asset (liability)		**11.3**		(13.9)

SRED pool has an indefinite carryforward and the investment tax credits expire ranging from 2018 to 2029.

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

For the year ended *(CAD millions)*		**December 31, 2010**		December 31, 2009
Deferred credit, beginning of period	**$**	**—**	$	—
Deferred credit recorded upon corporate reorganization		**20.6**		—
Amortization during the period		**(1.8)**		—
Deferred credit, end of period	**$**	**18.8**	$	—
Less: current portion		**(1.6)**		—
Deferred credit, long term portion	**$**	**17.2**	$	—

13. EMPLOYEE BENEFIT PLANS

NB Timberlands and Maine Timberlands each have defined contribution plans covering substantially all employees. During the year, contributions recorded as expenses amounted to $0.3 million (2009 – $0.3 million).

14. DIVIDENDS TO SHAREHOLDERS

Acadian pays quarterly dividends to the extent determined prudent by the Board of Directors. Total dividends declared for the year ended December 31, 2010 were $3.6 million (2009 – $11.4 million).

CORPORATE GOVERNANCE

The Corporation and our Board of Directors are committed to working together to achieve strong and effective corporate governance, with the objective of promoting the long-term interests of the Corporation and the enhancement of value for all shareholders. We continue to review and improve our corporate governance policies and practices in relation to evolving legislation, guidelines and best practices. Our Board of Directors is of the view that our corporate governance policies and practices and our disclosure in this regard are comprehensive and consistent with the guidelines established by Canadian securities regulators.

Our Statement of Corporate Governance Practices is set out in full in the Management Information Circular mailed each year to all our shareholders along with the Notice of our Annual Meeting. This Statement is also available on our website, *www.acadiantimber.com.*

BOARD AND MANAGEMENT

MANAGEMENT

Acadian Timber's Manager:
Brookfield Timberlands Management LP

Reid Carter
President and Chief Executive Officer of Acadian and Managing Partner of the Manager

Brian Banfill
Chief Financial Officer of Acadian

Marcia McKeague
Vice President, Maine Woodland Operations

Luc Ouellet
Vice President, NB Woodland Operations

CORPORATE AND SHAREHOLDER INFORMATION

HEAD OFFICE OF THE MANAGER

Brookfield Timberlands Management LP
(wholly-owned subsidiary of Brookfield Asset Management Inc.)
Suite 458, Bentall 5, 550 Burrard Street, Box 51
Vancouver, B.C. V6C 2B5
Please direct your inquiries to:
Robert Lee
Investor Relations and Communications
t. 604.661.9607 f. 604.562.6674
e. rlee@acadiantimber.com

TRUSTEE, TRANSFER AGENT AND REGISTRAR

Shareholder inquiries relating to dividends, address changes and shareholder account information should be directed to the Corporation's transfer agent:
CIBC Mellon Trust Company, P.O. Box 7010,
Adelaide Street Postal Station, Toronto, Ontario M5C 2W9
t. 416-643-5500 or 800-387-0825 (toll free in North America)
f. 416-643-5501 www.cibcmellon.com

SHARE INFORMATION

Toronto Stock Exchange: ADN
Fully Diluted Shares Outstanding (December 31, 2010): 16,731,216
Targeted 2011 Quarterly Dividend: $0.20625 per share
Record Date: Last business day of each quarter
Payment Date: On or about the 15th day of each subsequent month

ANNUAL MEETING

The Corporation's 2010 Annual Meeting of shareholders will be held at the Hockey Hall of Fame, The Esso Theatre, Brookfield Place, 30 Yonge Street, Toronto, Ontario, at 10:30 a.m. on May 3, 2011.

www.acadiantimber.com

This Annual Report contains forward-looking information and other forward-looking statements within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Acadian Timber Corp. and its subsidiaries (collectively, "Acadian"), or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in this Annual Report includes, without limitation, statements made in sections entitled "Market Overview," "Free cash flow," "Capital Resources" and "Outlook," and other statements regarding management's beliefs, intentions, results, performance, goals, achievements, future events, plans and objectives, business strategy, access to capital, liquidity and trading volumes, dividends, taxes, capital expenditures, projected costs, and similar statements concerning anticipated future events, results, achievements, circumstances, performance or expectations that are not historical facts. These statements reflect management's current expectations regarding future events and operating performance, are based on information currently available to management and speak only as of the date of this Annual Report. All forward-looking statements in this Annual Report are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; changes in Canadian income tax law; economic situation of key customers; and other risks and factors discussed under the heading "Risk Factors" in each of the Annual Information Form dated March 26, 2010 and the Management Information Circular dated March 26, 2010 of Acadian Timber Corp. and other filings of the Corporation and Acadian with securities regulatory authorities available on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: anticipated financial performance; business prospects; strategies; regulatory developments; exchange rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the ability to obtain financing on acceptable terms, which are subject to change based on commodity prices, market conditions for timber and wood products, the economic situation of key customers, and the utilization of the tax basis resulting from the conversion from an income trust to a corporation. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this Annual Report are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward looking statements. Certain statements in this Annual Report may also be considered "financial outlook" for the purposes of applicable Canadian securities laws, and such financial outlook may not be appropriate for purposes other than this Annual Report. The forward-looking statements contained in this Annual Report are made as of the date of this Annual Report, and should not be relied upon as representing Acadian's views as of any date subsequent to the date of this Annual Report. Acadian Timber Corp. assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as required by applicable law.

Acadian Timber
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