Q2 2006 Interim Report

President's Letter to Unitholders,

We are pleased to share with you our operating and financial results for Acadian Timber Income Fund's ("Acadian" or "Fund") second quarter ended June 30, 2006, our first full quarter of results.

As outlined in our first quarter Letter to Shareholders, the second quarter of the year is traditionally our weakest, related to seasonal operating conditions. Our financial performance this quarter was inline with our expectations. We are confident, given the traditionally stronger third and fourth quarters, that we are well positioned to meet distribution targets for unitholders for the balance of the year.

Financial Performance

On inception in January, Acadian established a target monthly distribution of $.06875 per unit, an 8.25% yield on the issue price of $10.00 per unit. For the second quarter of 2006, Acadian paid a total of $3.4 million in distributions to unitholders or $0.21 per unit, meeting our target distributions. Year-to-date, we have distributed a total of $5.7 million to unitholders.

During the second quarter, we generated net sales of $10.9 million and EBITDA of $0.2 million on log sales of 245 thousand m^3. For the same quarter in prior year, we generated net sales of $13.2 million and EBITDA of $1.3 million on log sales volumes of 267 thousand m^3 as a result of above average operating and market conditions. It is important to note that the comparable period in the prior year represent the best estimates based on pro forma financial information contained in the Fund's Prospectus dated January 23, 2006.

Operations

Acadian's New Brunswick and Maine Timberlands operations performed as expected in the second quarter. Continued positive pricing conditions prevailed in the quarter for Acadian's most important market, softwood sawlogs, despite continued weakening of benchmark lumber prices and reduced operations and closures at regional sawmills. Demand and pricing for hardwood sawlogs remained firm and prices for hardwood pulpwood remained relatively steady. We were able to move all of our hardwood pulpwood volumes despite pressure caused by the continued closure of a major customer's pulp and tissue mill and the sale of its pulpwood inventoried for spring.

During the quarter, our New Brunswick Timberlands successfully renegotiated a favourable labour agreement with Local 114 and was recommended for ISO and SFI recertification.

Acadian experienced two reportable incidents among employees and two reportable incidents among contractors and subcontractors. While these incidents were minor we are focused to be exceptionally diligent in our efforts to ensure the safety of employees, contractors, and the public in the communities in which we operate.

Outlook

Demand for softwood sawlogs remains stable across Acadian's operations, although current weak lumber markets are expected to result in moderate downward pressure on pricing. Despite the possibility of further market-related downtime at Fraser Papers' sawmills, management remains confident that it will sell its production going forward. Current price negotiations between Fraser Papers and its major suppliers are expected to result in a moderate decline, reflecting Fraser Papers current above average inventories and weak lumber pricing. However, this is not expected to impact Acadian's softwood sawlog pricing in the near term as it has been contracted at prices in excess of current market through the balance of the year.

Acadian's New Brunswick Timberlands operations are expected to have a considerably more favourable species mix for the remainder of 2006 with higher margin softwood expected to account for over 50% of harvest volumes versus only 32% during the first five months of this year.

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

Reid Carter
President and Chief Executive Officer

August 3, 2006

Management's Discussion and Analysis

INTRODUCTION

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

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

Acadian's business strategy is to maximize cash flows from its timberland assets, while enhancing the value of these assets over time and growing its business by acquiring complementary timberland assets in regions in which it operates.

Basis of Presentation

This section of our interim report presents management's discussion and analysis of our financial results ("MD&A") and is followed by our consolidated financial statements for the most recent period. The MD&A is intended to provide you with an assessment of our performance during the three month period ended June 30, 2006, (herein referred to as the "second quarter") and the five-month period ended June 30, 2006 (from inception on January 31, 2006). In order to enhance its usefulness, this MD&A includes a summary of the operating results of the Fund for the period since the inception of the Fund as compared to the combined pro forma results of the operations of NB Timberlands and Main Timberlands for the same periods in 2005. The pro forma financial information for the periods prior to the inception of the Fund are derived from the proforma consolidated financial statements contained in the Fund's Prospectus dated January 23, 2006 (the "Prospectus"). As the periods, or portions thereof, are prior to inception of the Fund, this information is provided for reference purposes only, and is not intended as a comprehensive comparison of financial results.

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

Throughout the MD&A, reference is made to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") and cash available for distribution. Management believes that EBITDA and cash available for distribution are key performance measures in evaluating the Fund's operations and are important in enhancing investors' understanding of the Fund's operating performance. As EBITDA and cash available for distribution 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 and cash flow from operations before changes in working capital, as determined in accordance with GAAP, to EBITDA and cash available for distribution in the "Review of Operations" section of this MD&A.

This MD&A has been prepared based on information available as at August 3, 2006. Additional information, including the Fund's Prospectus is available on Acadian's website at *www.acadiantimber.com* and on SEDAR's website at *www.sedar.com*.

REVIEW OF OPERATIONS

Summary of Second Quarter Results

The table below summarizes operating and financial data for Acadian:

	Three-Months Ended June 30		Five-Months Ended June 30	
millions, except per unit data and where indicated	**2006**	2005[1]	**2006**	2005[1]
Total				
Sales volume (000's m^3)	**244.8**	267.2	**585.8**	602.0
Net sales	**$ 10.9**	$ 13.2	**$ 30.3**	$ 31.2
Net income (loss)	**(0.3)**	—	**4.2**	—
EBITDA	**0.2**	1.3	**7.1**	7.3
EBITDA margin	**2%**	10%	**23%**	23%
Cash available for distribution	**$ (1.0)**	n/a	**$ 5.3**	n/a
Distributions declared				
Class A unitholders	**1.8**		**2.9**	
Class B LP unitholders	**0.6**		**1.2**	
Class B Interest of a subsidiary	**1.0**		**1.6**	
	3.4		**5.7**	
Total assets	**$ 235.6**		**$ 235.6**	
Total long-term debt	**77.7**		**77.7**	
Per Unit (fully diluted)				
Net income (loss)	**$ (0.02)**		**$ 0.13**	
Cash available for distribution per unit	**(0.06)**		**0.32**	
Distribution declared per unit				
Class A unitholders	**0.21**		**0.35**	
Class B LP unitholders	**0.21**		**0.35**	
Class B interest of a subsidiary	**0.21**		**0.35**	
Book value	**9.20**		**9.20**	
Units outstanding				
Class A unitholders	**8,450,643**		**8,450,643**	
Class B LP unitholders	**3,613,780**		**3,613,780**	
Class B Interest of a subsidiary	**4,507,030**		**4,507,030**	

1 *Prepared on a proforma basis, see Basis of Presentation.*

Cash Available for Distribution

Cash available for distribution for the five months ended June 30, 2006 was $5.3 million and although Acadian generated a distribution deficit for the second quarter, it is in keeping with the seasonal nature of Acadian's business and underlying market conditions. With the distributable cash generated to date and existing cash reserves, Acadian is well positioned to meet distributable cash flow targets for the balance of the year. Distributions declared during the quarter to Class A and B LP unitholders were $2.4 million and to Class B Interest holders were $1.0 million. These distributions of $0.06875 per month were in line with monthly distributions anticipated at the initial public offering ("IPO") representing an annualized yield of 8.25% based on the initial distribution price of $10 per unit.

The following table provides a reconciliation of net income and cash flow from operations before changes in working capital, as determined in accordance with GAAP, to EBITDA and cash available for distribution:

	Three-Months Ended		Five-Months Ended	
		June 30		June 30
millions		2006		2006
Net income	$	(0.3)	$	4.2
Add (deduct):				
Non-cash gain on Class B Interest Liability of a subsidiary		(2.7)		(3.6)
Depreciation and depletion		1.2		3.3
Interest expense on long-term debt		1.0		1.6
Distribution on Class B Interest Liability of a subsidiary		1.0		1.6
EBITDA		0.2		7.1
Add (deduct):				
Interest expense on long-term debt		(1.0)		(1.6)
Silviculture and capital expenditures		(0.2)		(0.2)
Cash available for distribution	$	(1.0)	$	5.3
Cash flow from operating activities before non-cash working capital balances	$	(1.8)	$	3.9
Add (deduct):				
Distribution on Class B Interest Liability of a subsidiary		1.0		1.6
Silviculture and capital expenditures		(0.2)		(0.2)
Cash available for distribution	$	(1.0)	$	5.3
Distributions declared	$	3.4	$	5.7

Results of Operations

The results for the second quarter of 2006, a period in the year which is traditionally the weakest as a result of seasonal operating conditions, are in line with expectations. Acadian generated net sales of $10.9 million and EBITDA of $0.2 million on 245 thousand m^3 of log sales volumes for the second quarter.

Net sales for the second quarter of the prior year were $13.2 million with EBITDA of $1.3 million. The prior year's results benefited from increased harvesting as a result of exceptional operating and market conditions. It is important to note that the comparable periods in the prior year represent the best estimates based on pro forma financial information contained in the Fund's Prospectus.

For the five months ended June 30, 2006 Acadian generated net sales of $30.3 million and EBITDA of $7.1 million compared with net sales of $31.2 million and EBITDA of $7.3 million for the same period of the prior year.

Included in net income for the second quarter of 2006, is a non-cash gain related to the Class B Interest Liability of a subsidiary. The settlement obligation of this interest is based on the trading value of Acadian's units at the time of settlement, which requires the liability to be recorded at its fair value at each balance sheet date with the corresponding gain or loss included in the statement of operations. In addition, as this Canadian dollar liability has been issued by a self-sustaining US dollar subsidiary of the Fund, the obligation is required to be converted to US dollars at each reporting period, with the corresponding gain or loss included in the statement of operations. These items resulted in a $2.7 million gain for the second quarter and $3.6 million gain for the five months ended June 30, 2006, comprising a $0.9 million foreign exchange loss and a $4.5 million mark-to-market gain.

Market Conditions

Prices for spruce, fir, cedar and pine sawlogs were slightly above levels in the previous quarter despite the continued weakening of benchmark lumber prices and reduced operations and closures at regional sawmills, including Fraser Papers' Plaster Rock and Juniper sawmills. These mills were both down for two weeks at the end of the second quarter although they continued to take log deliveries. Markets for hardwood sawlogs remained firm.

Softwood pulpwood prices increased slightly over first quarter levels and hardwood pulpwood prices remained relatively steady. Acadian was able to move all of its hardwood pulpwood volumes despite pressure caused by the continued closure of a major customer's pulp and tissue mill and the sale of its pulpwood inventoried for spring. Other capacity changes in the region included the St. Anne Nackawic hardwood pulp mill that has now officially restarted operations and become an important hardwood pulp consumer, and UPM Kymmene's Miramichi's coated groundwood mill that restarted in early May.

Segmented Results of Operations

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

	Three-Months Ended June 30, 2006				Three-Months Ended June 30, 2005[1]			
millions	NB Timberlands	Maine Timberlands	Corporate	Consolidated	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000's m³)	192.9	51.9	—	244.8	235.4	31.8	—	267.2
Net sales	$ 8.1	$ 2.8	$ —	$ 10.9	$ 11.3	$ 1.9	$ —	$ 13.2
EBITDA	$ (0.1)	$ 0.5	$ (0.2)	$ 0.2	$ 1.0	$ 0.3	$ —	$ 1.3
EBITDA margin	(1%)	18%	n/a	2%	9%	16%	n/a	10%

	Five-Months Ended June 30, 2006				Five-Months Ended June 30, 2005[1]			
millions	NB Timberlands	Maine Timberlands	Corporate	Consolidated	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000's m³)	463.0	122.8	—	585.8	507.2	94.8	—	602.0
Net sales	$ 22.9	$ 7.4	$ —	$ 30.3	$ 25.1	$ 6.1	$ —	$ 31.2
EBITDA	$ 4.9	$ 2.6	$ (0.4)	$ 7.1	$ 5.2	$ 2.1	$ —	$ 7.3
EBITDA margin	21%	35%	n/a	23%	21%	34%	n/a	23%

1 *Prepared on a proforma basis, see Basis of Presentation.*

NB Timberlands

NB Timberlands owns and manages 765,000 acres of freehold timberlands, provides management services relating to approximately 1.3 million acres of Crown licensed timberlands, and owns a forest nursery. Harvesting is performed by approximately an equal proportion of NB Timberlands employees and third-party contractors.

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

	Three-Months Ended June 30, 2006			Three-Months Ended June 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000's m³)	*(000's m³)*	*(millions)*	*(000's m³)*	*(000's m³)*	*(millions)*
Softwood	24.8	33.1	$ 2.2	45.8	50.9	$ 3.7
Hardwood	86.6	106.8	5.7	56.7	110.1	6.1
Biomass	53.0	53.0	0.9	74.4	74.4	1.8
	164.4	192.9	8.8	176.9	235.4	11.6
Other sales			(0.7)			(0.3)
Net sales			$ 8.1			$ 11.3
EBITDA			$ (0.1)			$ 1.0
EBITDA margin			(1)%			9%

1 *Prepared on a proforma basis, see Basis of Presentation.*

	Five-Months Ended June 30, 2006			Five-Months Ended June 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000's m³)	*(000's m³)*	*(millions)*	*(000's m³)*	*(000's m³)*	*(millions)*
Softwood	107.9	146.2	$ 9.5	153.6	164.6	$ 10.7
Hardwood	184.3	207.6	11.3	181.8	208.2	11.2
Biomass	109.2	109.2	1.9	134.3	134.4	3.0
	401.4	463.0	22.7	469.7	507.2	24.9
Other sales			0.2			0.2
Net sales			$ 22.9			$ 25.1
EBITDA			$ 4.9			$ 5.2
EBITDA margin			21%			21%

1 *Prepared on a proforma basis, see Basis of Presentation.*

NB Timberlands typically has only limited operations during the second quarter owing to seasonal operating conditions. Softwood, hardwood and biomass shipments were 33 thousand m^3, 107 thousand m^3 and 53 thousand m^3, respectively, a decrease of 35% and 29% for softwood and biomass. Hardwood shipments were relatively flat compared to the same period last year. Approximately 23% of sales volume was sold as sawlogs, 50% as pulpwood and 27% as biomass.

Net sales for the second quarter were $8.1 million, a 28% decrease compared to the same period last year, largely reflecting lower sales volumes. For the five months ended June 30, 2006, net sales decreased $2.2 million compared to the same period in 2005.

Costs for the second quarter were $8.2 million, a 20% decrease compared to the same period last year. This decrease was attributable to lower harvest volumes and reflects the variable cost nature of the business.

EBITDA for the second quarter was ($0.1) million, compared to $1.0 million the same period last year. For the five months ended June 30, 2006, EBITDA and EBITDA margin were relatively consistent year-over-year.

Operations ran well in the second quarter while external market conditions continued to be the most significant challenge. Fraser Papers' two week closure of its Plaster Rock and Juniper sawmills in the second quarter extended into the first two weeks of the third quarter. Throughout this period, Fraser Papers continued to take log deliveries, resulting in log inventories at these mills currently being at above average levels. This will likely place increasing pressure on pricing in the coming quarters. Markets for hardwood sawlogs remain robust while markets for hardwood pulpwood have been more difficult owing the closure of a major customer's pulp and tissue mill.

NB Timberlands successfully renegotiated a favourable labour agreement with Local 114 during the second quarter. Acadian now has four years left in both of its labour agreements. NB Timberlands also underwent a complete audit of its ISO and SFI certifications during the second quarter and has been recommended for recertification.

NB Timberlands experienced two reportable incidents among employees and one reportable incident among contractors during the quarter, resulting in a total of 15 work days of lost time.

Maine Timberlands

Maine Timberlands owns and operates 311,000 acres of freehold timberlands and is operated exclusively by third-party contractors.

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

	Three-Months Ended June 30, 2006			Three-Months Ended June 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000's m³)	*(000's m³)*	*(millions)*	*(000's m³)*	*(000's m³)*	*(millions)*
Softwood	32.1	32.1	$ 2.0	18.3	18.3	$ 1.2
Hardwood	16.9	16.9	0.8	11.5	11.5	0.7
Biomass	2.9	2.9	—	2.0	2.0	—
	51.9	51.9	2.8	31.8	31.8	1.9
Other sales			—			—
Net sales			$ 2.8			$ 1.9
EBITDA			$ 0.5			$ 0.3
EBITDA margin			18%			16%

1 *Prepared on a proforma basis, see Basis of Presentation.*

	Five-Months Ended June 30, 2006			Five-Months Ended June 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000's m³)	*(000's m³)*	*(millions)*	*(000's m³)*	*(000's m³)*	*(millions)*
Softwood	88.4	88.4	$ 5.8	71.1	71.1	$ 4.8
Hardwood	29.0	29.0	1.6	21.0	21.0	1.3
Biomass	5.4	5.4	—	2.7	2.7	—
	122.8	122.8	7.4	94.8	94.8	6.1
Other sales			—			—
Net sales			$ 7.4			$ 6.1
EBITDA			$ 2.6			$ 2.1
EBITDA margin			35%			34%

1 *Prepared on a proforma basis, see Basis of Presentation.*

Maine Timberlands produced solid operating results for this seasonally slow quarter with softwood and hardwood shipments of 32 thousand m^3 and 17 thousand m^3, an increase of 75% and 47%, respectively. Biomass shipments of 3 thousand m^3 were relatively consistent compared to the same period last year. Approximately 44% of shipment volume was sold as sawlogs, 51% as pulpwood and 6% as biomass.

Net sales for the second quarter were $2.8 million, an increase of 47% compared to the same period last year, primarily the result of strong sales volumes. For the five months ended June 30, 2006, net sales increased $1.3 million compared to the same period in 2005.

Costs for the second quarter were $2.3 million, an increase of 44% compared to the same period last year. The increase was attributable to higher harvest volumes and increased road maintenance and construction costs. Maine Timberlands took advantage of crew availability and favorable weather conditions in April to accomplish early road building. We anticipate this cost will be consistent with plan for the year.

EBITDA for the second quarter was $0.5 million, an increase of 67% compared to the same period last year. For the five months ended June 30, 2006, EBITDA increased $0.5 million compared to the same period in 2005. EBITDA margin was 18% for the quarter, which was a 2% improvement compared to the same period last year.

These positive year-over-year comparisons reflect improved operating activity owing to an unusually dry April, the focus on harvesting in more accessible areas, and the use of equipment better able to operate on wet ground.

Maine Timberlands had no accidents among employees and contractors. A subcontractor had a minor accident which did not result in lost time.

Financial Position

Acadian's balance sheet consists of total assets of $235.6 million, represented primarily by timberlands and logging roads of $224.7 million and the balance in cash and working capital of $10.9 million. Timberlands have been recorded at cost as determined through the purchase of these assets on formation of the Fund and are depleted and charged to operations in a systematic manner based on the utilization of the timber resources. Silviculture costs have been capitalized as they were incurred. These assets were funded through the proceeds from the issuance of units of the Fund and borrowings which are described in more detail in the following section.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Acadian's principal sources of liquidity include cash earned in operations and a $5 million operating credit facility which remains undrawn since the inception of the Fund. These sources, combined with existing cash and cash equivalents and net working capital generated by the Fund since inception, will allow the Fund to meet its operating, debt service, capital expenditure and distribution requirements. 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.

The Fund expects to make monthly distributions of its available cash to the extent determined prudent by the Trustees.

Silviculture and capital expenditures for the quarter ended June 30, 2006 were $0.2 million and are inline with management's estimate of annual silviculture and capital expenditures of $1.3 million, which is expected to be incurred mainly during the third quarter of this year.

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

Capital Resources

Borrowings

The Fund has a $47 million bank credit facility consisting of a $42 million bank term credit facility and a $5 million revolving credit facility. As at June 30, 2006, no funds had been drawn on the revolving credit facility. The term facility, which matures on January 30, 2009, is fully drawn, and bears interest based at the 30-day Banker Acceptances rate. Management will continue to assess the term and amount of these facilities as well as alternative financing options, including the fixing of the interest rates where appropriate. The Fund also has secured a term loan facility of US$31.5 million. This facility bears interest at 4.67%, payable quarterly and expires on February 27, 2011. The Fund has granted the lenders a security interest over its assets. Both facilities contain certain restrictive covenants relating to debt incurrence, sale of assets, and maintenance of certain financial ratios all of which are in compliance as at June 30, 2006.

Outstanding Units

As at June 30, 2006, 8,450,643 Class A units were issued and outstanding. The Fund's capital structure remains unchanged from its launch on January 31, 2006. The Fund is authorized to issue an unlimited number of units of the same class with equal rights and privileges. Unitholders are entitled to receive distributions as and when declared by the Trustees of the Fund and are entitled to one vote per unit on all matters to be voted on by unitholders at each meeting of unitholders.

On closing of the IPO, the Fund issued 3,613,780 exchangeable Class B LP units to Fraser Papers as part of the consideration for the acquisition of the NB Timberland assets and 4,507,030 convertible Class B Interest Liability of a subsidiary to Brookfield Asset Management Inc. ("Brookfield") as part of the consideration for the acquisition of the Maine Timberlands. These interests are convertible into units of the Fund at the option of the holders on a one-for-one basis and represent approximately 22% and 27%, respectively of the issued and outstanding units on a fully-diluted basis.

The Class B Interest Liability of a subsidiary entitle the holder to require the settlement of the liability in units, or at the sole election of Acadian, cash equal to the fair value of those units on the date of conversion. As the settlement of these interests is either cash or something other than the equity of the subsidiary, they are considered liabilities for accounting purposes. Holders of these interests are entitled to receive, as and when declared by Acadian, a fixed cumulative preferential cash distribution at a rate equal to the US dollar equivalent on the date of such distribution of the lesser of (i) $0.075625, being 110% of the initial monthly distribution per unit, and (ii) the then most recently announced distribution per unit.

A summary of the Fund units on a fully diluted basis is as follows:

	As at June 30, 2006	
	Number	Percentage
Class A units outstanding	8,450,643	51%
Class B LP units outstanding	3,613,780	22%
Class B Interest Liability of a subsidiary outstanding	4,507,030	27%
	16,571,453	100%

OUTLOOK

Demand for softwood sawlogs remains stable across Acadian's operations, although current weak lumber markets are expected to result in moderate downward pressure on pricing. Despite the possibility of further market-related downtime at Fraser Papers' sawmills, management remains confident that it will sell its production going forward. Current price negotiations between Fraser Papers and its major suppliers are expected to result in a moderate decline, reflecting Fraser Papers current above average inventories and weak lumber pricing. However, this is not expected to impact Acadian's softwood sawlog pricing in the near term as it has been contracted at prices in excess of current market through the balance of the year.

Acadian's New Brunswick Timberlands operations are expected to have a considerably more favourable species mix for the remainder of 2006 with higher margin softwood expected to account for over 50% of harvest volumes versus only 32% during the first five months of this year.

SUPPLEMENTAL INFORMATION

This supplemental information contains information required by applicable continuous disclosure guidelines and to facilitate additional analysis.

Selected Consolidated Quarterly Information

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

	2006		Proforma 2005[2]				Proforma 2004[2]	
millions	Q2	Q1[1]	Q4	Q3	Q2	Q1	Q4	Q3
Sales volume (000's m^3)	245	341	399	354	267	455	380	384
Net sales	$ 10.9	$ 19.4	$ 22.5	$ 19.1	$ 13.2	$ 25.5	$ 21.4	$ 21.4
EBITDA[3]	$ 0.2	$ 6.9	$ 6.6	$ 4.8	$ 1.3	$ 8.8	$ 5.3	$ 5.0
Distributable cash	$ (1.0)	$ 6.3	n/a	n/a	n/a	n/a	n/a	n/a
Net income	$ (0.3)	$ 4.5	n/a	n/a	n/a	n/a	n/a	n/a
Net income per unit - basic	$ (0.02)	$ 0.37	n/a	n/a	n/a	n/a	n/a	n/a
Net income per unit - diluted	$ (0.02)	$ 0.27	n/a	n/a	n/a	n/a	n/a	n/a

1 *Q1 2006 results are for the two-month period ended March 31, 2006.*

2 *Prepared on a proforma basis, see Basis of Presentation, with the exception of sales dollars and volumes attributed to non-continuing business arrangements which have been eliminated.*

3 *EBITDA for the quarters prior to Q1 2006 comprise Proforma Adjusted EBITDA as detailed in the Fund's Prospectus. EBITDA and Proforma Adjusted EBITDA are not recognized measures under GAAP and do not have the standardized meanings prescribed by GAAP. EBITDA and Proforma Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See the Fund Prospectus "Reconciliation of Earnings to Adjusted EBITDA and Proforma Adjusted EBITDA and this MD&A "Cash available for distribution" for a reconciliation of EBITDA to net income.*

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. Actual results could differ from these estimates.

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

Purchase Price Allocation

The allocation of the Fund's purchase price to timberlands, logging roads, fixed assets equipment, and contracts are subject to management's estimates. These estimates are subject to change during the year as management refines the underlying calculations and analysis. In addition, the portion of the purchase price allocated to working capital is subject to working capital price adjustment which has been estimated and may change upon the final settlement which is expected to occur later in the third quarter.

Accounting for Timberlands and Logging Roads

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

Taxation of Fund Distributions

Management estimates approximately 35% of the Fund's targeted distributions for 2006 will represent a return of capital.

Related Party Transactions

In the normal course of operations, the Fund enters into various transactions on market terms with related parties which have been measured at exchange value and recognized in the consolidated financial statements. The Fund has two significant related parties, Brookfield Asset Management Inc., and affiliates (collectively "Brookfield") and Fraser Papers Inc. Brookfield owns approximately 27% of the outstanding units of the Fund on a fully diluted basis through its ownership of the Class B Interest Liability of a subsidiary. Fraser Papers owns approximately 22% of the outstanding units of the Fund on a fully diluted basis through its ownership of the Class B LP units. A summary of the significant related party transactions have been provided below. More detailed information regarding these relationships can be found in the Fund's prospectus dated January 23, 2006.

a) Concurrent with the Offering, Acadian entered into a number of fibre supply agreements whereby Acadian has agreed to provide fibre to Fraser Papers and Brookfield for periods of up to 20 years. In addition, Acadian has agreed to administer certain licenses on behalf of Fraser Papers. Total net sales to Fraser Papers and Brookfield during the three months ended June 30, 2006 amounted to $3.2 million and $0.4 million, respectively which represented 33% of consolidated net sales. Included in accounts receivable at June 30, 2006 is $1.0 million related to these agreements. Total net sales to Fraser Papers and Brookfield for the five month period ended June 30, 2006 amounted to $10.2 million and $1.2 million.

b) Concurrent with the Offering, Acadian entered into an agreement with Brookfield whereby, Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided in the second quarter amounted to $0.5 million and $0.8 million for the five months ended June 30, 2006. All fees have been fully paid in accordance with the services agreement.

c) Distributions paid or declared to Fraser Papers during the three and five months ended June 30, 2006 totalled $0.6 million and $1.2 million, respectively.

d) Payments on the Class B Interest Liability to Brookfield during the three and five months ended June 30, 2006 totalled $1.0 million and $1.6 million, respectively.

e) Fraser Papers continues to provide certain administrative services to Acadian under a transitional services agreement. No amounts are charged for these services.

f) Included in accounts payable and accrued liabilities as at June 30, 2006 is $0.6 million related to a working capital adjustment due to Fraser Papers as part of the acquisition of the NB Timberlands.

Contractual Obligations

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

		Payments Due by Period				
millions	Total Available	Total	Less Than One Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt						
Bank term credit facility	$ 42.0	$ 42.0	$ —	$ 42.0	$ —	$ —
Revolving credit facility	5.0	—	—	—	—	—
Class B Interests	40.6	40.6	—	—	—	40.6
Term loan facility	35.7	35.7	—	—	35.7	—
	$ 123.3	$ 118.3	$ —	$ 42.0	$ 35.7	$ 40.6
Interest expense (i)(ii)		$ 14.1	$ 3.9	$ 7.3	$ 2.9	$ —

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

(i) Bank term debt credit facility variable interest at 5.5% per annum;

(ii) Term loan facility fixed interest at 4.67% with a Canadian to US dollar conversion of 0.87.

Additional Quarterly Information

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

NB Timberlands

	2006 Q2			2006 Q1			2005 Q4			2005 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	24.8	33.1	$ 2.2	83.1	113.1	$ 7.3	87.9	92.6	$ 5.6	96.3	88.7	$ 5.3
Hardwood (000's m^3)	86.6	106.8	5.7	97.7	100.8	5.6	207.4	153.5	9.3	144.7	110.9	7.1
Biomass (000's m^3)	53.0	53.0	0.9	56.2	56.2	1.0	63.6	63.6	0.9	78.0	78.0	1.6
	164.4	192.9	8.8	237.0	270.1	13.9	358.9	309.7	15.8	319.0	277.6	14.0
Other Sales			(0.7)			0.9			0.9			0.3
Net sales			$ 8.1			$ 14.8			$ 16.7			$ 14.3
EBITDA[3]			$ (0.1)			$ 5.0			$ 3.6			$ 3.4
EBITDA Margin			(1%)			34%			22%			24%

Maine Timberlands

	2006 Q2			2006 Q1			2005 Q4			2005 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	32.1	32.1	$ 2.0	56.3	56.3	$ 3.8	71.9	71.9	$ 5.1	54.5	54.5	$ 3.9
Hardwood (000's m^3)	16.9	16.9	0.8	12.1	12.1	0.8	15.6	15.6	0.7	18.5	18.5	0.9
Biomass (000's m^3)	2.9	2.9	—	2.5	2.5	—-	2.2	2.2	—	3.5	3.5	—
	51.9	51.9	2.8	70.9	70.9	4.6	89.7	89.7	5.8	76.5	76.5	4.8
Other Sales			—			—						
Net sales			$ 2.8			$ 4.6			$ 5.8			$ 4.8
EBITDA[3]			$ 0.5			$ 2.1			$ 3.0			$ 1.4
EBITDA Margin			18%			46%			52%			29%

Corporate

	2006 Q2			2006 Q1			2005 Q4			2005 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	—	—	—	—	—	—						
Hardwood (000's m^3)			—			—						
Biomass (000's m^3)			—			—						
	—	—	—	—	—	—	—	—	—	—	—	—
Other Sales			—			—						
Net sales			$ —			$ —			$ —			$ —
EBITDA[3]			$ (0.2)			$ (0.2)			n/a			n/a
EBITDA Margin			n/a			n/a			n/a			n/a

NB Timberlands

	2005 Q2			2005 Q1			2004 Q4			2004 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	45.8	50.9	$ 3.7	144.7	161.8	$ 9.1	80.7	73.7	$ 4.9	93.7	93.6	$ 5.8
Hardwood (000's m^3)	56.7	110.1	6.1	171.2	115.7	6.8	162.1	139.9	7.7	148.3	158.7	9.0
Biomass (000's m^3)	74.4	74.4	1.8	78.1	78.2	1.6	68.3	68.3	1.2	61.1	61.2	1.3
	176.9	235.4	11.6	394.0	355.7	17.5	311.1	281.9	13.8	303.1	313.5	16.1
Other Sales			(0.3)			1.3			1.0			0.7
Net sales			$ 11.3			$ 18.8			$ 14.8			16.8
EBITDA[3]			$ 1.0			$ 6.1			$ 3.4			$ 3.9
EBITDA Margin			9%			32%			23%			23%

Maine Timberlands

	2005 Q2			2005 Q1			2004 Q4			2004 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	18.3	18.3	$ 1.2	84.7	84.7	$ 5.9	73.0	73.0	$ 5.0	52.1	52.1	$ 3.5
Hardwood (000's m^3)	11.5	11.5	0.7	12.5	12.5	0.7	20.4	20.4	1.5	14.0	14.0	1.0
Biomass (000's m^3)	2.0	2.0	—	1.7	1.7	—	5.1	5.1	—	4.5	4.5	—
	31.8	31.8	1.9	98.9	98.9	6.6	98.5	98.5	6.5	70.6	70.6	4.5
Other Sales			—			0.1			0.1			0.1
Net sales			$ 1.9			$ 6.7			$ 6.6			$ 4.6
EBITDA[3]			$ 0.3			$ 2.7			$ 1.9			$ 1.1
EBITDA Margin			16%			40%			29%			24%

Corporate

	2005 Q2			2005 Q1			2004 Q4			2004 Q3		
millions	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
Softwood (000's m^3)	—	—	—	—	—	—						
Hardwood (000's m^3)												
Biomass (000's m^3)												
	—	—	—	—	—	—	—	—	—	—	—	—
Other Sales												
Net sales			$ —			$ —			$ —			$ —
EBITDA[3]			n/a			n/a			n/a			n/a
EBITDA Margin			n/a			n/a			n/a			n/a

Forward-Looking Statements

This Interim Report contains forward-looking information and other "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Interim Report, such statements use such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "building," "remain," "anticipate," "estimate," "potential," "continue" or the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Interim Report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: concentration of customers; commodity pricing; seasonality weather and natural conditions; regulatory changes; and other risks and factors discussed under Risk and Uncertainties in this Interim Report and Acadian's Final Prospectus. Although the forward-looking statements contained in this Interim Report are based upon what management believes are reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Interim Report, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

Interim Consolidated Balance Sheet

(unaudited)

As at June 30 *CAD millions*	Note		2006
Assets			
Current assets			
Cash and cash equivalents		$	3.3
Accounts receivable and other assets	9		5.5
Inventory			2.1
			10.9
Timberlands, logging roads and fixed assets	5		224.7
		$	235.6
Liabilities and unitholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	$	4.7
Distributions payable to unitholders			0.8
			5.5
Long-term debt	6		77.7
Class B Interest Liability of a subsidiary	7		40.6
Unitholders' equity	8		111.8
		$	235.6

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statement of Operations and Retained Earnings

(unaudited)

For the period ended June 30 *CAD millions*	Note	Three-Months Ended 2006	Five-Months Ended 2006
Net sales		$ 10.9	$ 30.3
Operating costs and expenses			
Cost of sales		9.2	20.7
Selling, administration and other		1.5	2.5
Depreciation and depletion		1.2	3.3
		11.9	26.5
Operating earnings (loss)		(1.0)	3.8
Gain on Class B Interest Liability of a subsidiary	7	2.7	3.6
Interest expense			
Long-term debt		(1.0)	(1.6)
Class B Interest Liability of a subsidiary		(1.0)	(1.6)
Earnings (loss) before income taxes		(0.3)	4.2
Income taxes		—	—
Net income (loss) for the period		(0.3)	4.2
Retained earnings, beginning of period		2.8	—
Unitholders' distributions		(2.4)	(4.1)
Retained earnings, end of period		$ 0.1	$ 0.1
Net income (loss) per unit – basic	8	$ (0.02)	$ 0.35
Net income (loss) per unit – diluted	8	$ (0.02)	$ 0.13

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(unaudited)

For the period ended June 30 *CAD millions*	Note	Three-Months Ended 2006	Five-Months Ended 2006
Cash provided by (used for):			
Operating activities			
Net income (loss)		$ (0.3)	$ 4.2
Items not affecting cash:			
Depreciation and depletion		1.2	3.3
(Gain) on Class B Interest Liability of a subsidiary	7	(2.7)	(3.6)
		(1.8)	3.9
Net change in non-cash working capital balances		(7.2)	(1.3)
		(9.0)	2.6
Investing activities			
Purchase of New Brunswick Timberlands	3	—	(106.8)
Purchase of Maine Timberlands	4	—	(7.7)
Silviculture expenditures		(0.2)	(0.2)
		(0.2)	(114.7)
Financing activities			
Proceeds on issuance of units, gross	1	—	84.5
Proceeds from long-term debt		—	42.0
Offering costs paid	8	(0.3)	(7.8)
Distributions paid to unitholders		(2.4)	(3.3)
		(2.7)	115.4
Change in cash and cash equivalents during the period		(11.9)	3.3
Cash and cash equivalents, beginning of period		15.2	—
Cash and cash equivalents, end of period		$ 3.3	$ 3.3

See accompanying notes to interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

(unaudited) (All figures in Canadian dollars unless otherwise stated)

NOTE 1. GENERAL

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

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated December 15, 2005, as amended. The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The authorized equity of the Fund consists of an unlimited number of fund units ("Units"). Unitholders are entitled to receive distributions as and when declared by the trustees of the Fund (the "Trustees") and are entitled to one vote per Unit on all matters to be voted on by Unitholders at each meeting of Unitholders.

The Fund was inactive until January 31, 2006, when it completed an initial public offering (the "Offering") through the sale of 8,450,643 Units to the public for gross proceeds of $84.5 million, which after offering costs of $8.6 million, resulted in net proceeds of $75.9 million.

Concurrent with the Offering, Acadian borrowed $42.0 million under a term credit facility and arranged a revolving credit facility of up to $5.0 million with a Canadian chartered bank. These borrowings, along with proceeds of the Offering and the issuance of additional securities to Fraser Papers Inc. (see Notes 3 and 6), were used to indirectly acquire certain timberlands located in New Brunswick (the "NB Timberlands"). The Fund also indirectly acquired all the common membership interests of Katahdin Forest Management LLC (the "Maine Timberlands"), which owns certain timberlands located in Maine, USA. These acquisitions are more fully described in Notes 3 and 4.

As part of the transactions described above, Brookfield Asset Management Inc. (together with its subsidiaries "Brookfield") and Fraser Papers Inc. (together with its subsidiaries "Fraser Papers") each have a significant ownership interest in Acadian.

These interim consolidated financial statements present the results of operations of the Fund from the close of the Offering on January 31, 2006 to June 30, 2006. The Fund had no active operations prior to January 31, 2006 and, accordingly, no comparative figures are presented.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These interim consolidated financial statements present the results of operations and cash flows of Acadian for the five month period from January 31, 2006 to June 30, 2006 and for the three-month period ended June 30, 2006. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants. Not all of the disclosures required by GAAP are presented and, accordingly, these financial statements should be read in conjunction with the financial statements included in the Fund's final prospectus dated January 23, 2006. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

Seasonality

Due to the seasonal nature of Acadian's timberland operations, the first 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 than do the second and third quarters 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 and cash equivalents are recorded at cost, which approximates their fair value.

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

Silviculture costs are capitalized to timberlands.

Fixed Assets

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

Deferred Financing Costs

Deferred financing costs are amortized on a straight-line basis over the term of the underlying issuance of debt.

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 licencees and sub-licencees consist of management fees. Management fee revenues are recognized net of the costs to perform these services upon the delivery of the timber.

Class B Interest Liability of a Subsidiary

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

The value of the liability is measured at each reporting date to reflect the market price of the Units and the current exchange rates. Changes in value are recorded in the consolidated statement of operations.

(unaudited) (All figures in Canadian dollars unless otherwise stated)

Class B LP Units

The Class B LP units represent units in a subsidiary of the Fund and are exchangeable into Units at any time. The Class B LP units have been treated as a component of Unitholders' Equity for accounting purposes and as part of the number of Units outstanding for the calculation of basic earnings per Unit.

Translation of Foreign Currencies

Monetary assets and liabilities of domestic operations denominated in United Sates dollars are translated at the exchange rate prevailing at the end of the period and revenues and expenses are translated at average exchange rates during the period.

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 at average exchange rates during the period. Gains or losses on translation are not included in the consolidated statement of operations, but are presented as a separate item in Unitholders' equity.

Financial Instruments

The fair values of financial instruments approximate their book value except where disclosed in these notes.

Income Taxes

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

Under the terms of the Income Tax Act (Canada), Acadian, excluding its corporate subsidiaries, is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a Unitholder. Accordingly, no provision for current income taxes for the Fund is made. In addition, the Fund is not required to apply the recommendations of the Canadian Institute of Chartered Accountants Handbook ("CICA"), section 3465, as the Fund is contractually committed to distribute to its Unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund. The Fund intends to continue to meet the requirements under the Income Tax Act applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

Certain of the Fund's wholly-owned subsidiaries are subject to corporate income taxes and CICA section 3465.

NOTE 3. ACQUISITION OF THE NB TIMBERLANDS

Concurrent with the Offering, Acadian acquired the NB Timberlands from Fraser Papers. The net assets were acquired for total consideration of $144.7 million, comprising $106.8 million in cash consisting of $108.4 million in cash less $1.6 million in cash assumed, plus 3,613,780 Class B LP units in a subsidiary of the Fund ("Fraser Units") with a fair value of $10 per unit and a $1.8 million purchase price adjustment. As at June 30, 2006, this adjustment is included as an unpaid item in accounts payable and accrued liabilities. The Fraser Units are substantially equivalent to Units of the Fund. The acquisition was accounted for using the purchase method. The preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

Current assets less accounts payable and accrued liabilities (excluding cash)	$	4.3
Buildings and equipment		1.2
Timberlands and logging roads		139.2
Total, net of cash acquired	$	144.7

The preliminary allocation of the purchase price is based on internal management valuations and anticipated tax basis elections. The purchase price allocation may change upon final determination of the fair value of assets acquired and liabilities assumed. The impact to depletion and depreciation expense of any final adjustments may be material and will be recorded on a prospective basis.

(unaudited) (All figures in Canadian dollars unless otherwise stated)

NOTE 4. ACQUISITION OF THE MAINE TIMBERLANDS

Concurrent with Offering, Acadian acquired all of the common membership interests of the Maine Timberlands from Brookfield. These interests were acquired for cash consideration of $9.3 million less $1.6 million of cash acquired on acquisition. The acquisition was accounted for using the purchase method. The preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

Current assets less account payable and accrued liabilities (excluding cash)	$ 0.1
Timberlands and logging roads	89.9
Term loan facility (Note 6)	(37.2)
Class B Interest Liability (Note 7)	(45.1)
Total	$ 7.7

The preliminary allocation of the purchase price is based on internal management valuations and anticipated tax basis elections. The purchase price allocation may change upon final determination of the fair value of assets acquired and liabilities assumed. The impact to depletion and depreciation expense of any final adjustments may be material and will be recorded on a prospective basis.

NOTE 5. TIMBERLANDS, LOGGING ROADS AND FIXED ASSETS

	Book Value	Accumulated Depletion and Depreciation	Net Book Value
Timberlands	$ 218.9	$ (3.0)	$ 215.9
Logging roads	7.9	(0.3)	7.6
Building and equipment	1.2	—	1.2
	$ 228.0	$ (3.3)	$ 224.7

NOTE 6. LONG TERM DEBT

At June 30, 2006, long term debt consisted of the following:

Bank term credit facility, repayable in January 2009	$ 42.0
Term loan facility, repayable in February 2011	35.7
	$ 77.7

Concurrent with the Offering, Acadian secured a term credit facility for up to $42.0 million and a revolving credit facility of up to $5.0 million. The term credit facility expires on January 30, 2009 and bears interest at floating rates which for the five months ended June 30, 2006 was based on 30-day Banker Acceptance rates. The revolving credit facility bears interest at 30-day Banker Acceptance rates, has a period of 364 days and has customary extension features. As at June 30, 2006, Acadian has borrowed $42.0 million under the term facility and nil under the revolving security. 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. As at June 30, 2006, Acadian was in compliance with all covenants.

The Maine Timberlands secured a term loan facility for up to US$31.5 million which is fully drawn at June 30, 2006. 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. As security for this facility, Maine Timberlands has granted the lenders a security interest over its assets. The facility has certain restrictive covenants relating to debt incurrence and the sale of assets and requires Maine Timberlands to maintain certain financial ratios. As at June 30, 2006, Maine Timberlands was in compliance with all covenants. The amount payable under this facility totalled $35.7 million at June 30, 2006.

(unaudited) (All figures in Canadian dollars unless otherwise stated)

NOTE 7. CLASS B INTEREST LIABILITY OF A SUBSIDIARY

The Class B Interest Liability represents 4,507,030 preferred interests in the Maine Timberlands which are convertible into Units of the Fund. The distributions are entitled to a fixed monthly cumulative preferential dividend equal to the lesser of $0.076525 and the most recently announced distribution per Unit of the Fund. These interests are convertible at the option of the holder on a one for one basis into units of the Fund or, at the sole discretion of Acadian, into cash equal to the full market value of these Units on the date of conversion. During the period, distributions on the Class B Interests were $0.21 per preferred interest, the same as distribution on Units of the Fund.

The Class B Interest Liability is a Canadian dollar liability of the Maine Timberlands. As the currency of measurement of the Maine timberlands is the US dollar, the liability is marked to market at each balance sheet date based on the change on the value of the units of the Fund and the US to Canadian dollar exchange rate with the change recorded in income for the period. For the three months ended June 30, 2006, the revaluation of this interest resulted in a gain of $2.7 million, and a $3.6 million gain for the five months ended June 30, 2006. The year-to-date gain is comprised of a $4.5 million mark-to-market gain which has been offset by a $0.9 million foreign exchange loss due to the strengthening of the Canadian currency.

NOTE 8. UNITHOLDERS' EQUITY

The components of Unitholders' equity as at June 30, 2006 are as follows:

Units issued and outstanding – 8,450,643 Units	$	78.3
Class B LP units issued and outstanding – 3,613,780 Fraser Units		33.4
Retained earnings		0.1
	$	111.8

The Fund issued one Unit upon its formation and 8,450,643 Units at $10 per unit on January 31, 2006 for gross proceeds of $84.5 million and net proceeds of $78.3 million after the allocation of $6.2 million of costs of the Offering.

Acadian issued 3,613,780 Fraser Units on January 31, 2006 as part of the consideration for the purchase of the NB Timberlands (see Note 3). The carrying amount has been reduced by the allocation of $2.7 million of the costs of the Offering resulting in a carrying value of $33.4 million. The Fraser Units are convertible on a one for one basis into Units at the option of the holder. The Fraser units are entitled to distributions and voting rights equivalent to the Fund units.

Immediately prior to the Offering, the Maine Timberlands issued preferred interests to companies controlled by Brookfield (the "Class B Interest Liability") that had a value of $45.1 million at the time of the Offering. The Class B Interest Liability is convertible on a one for one basis into Units. See Notes 4 and 7 for further information with respect to the Class B Interest Liability.

The Fund incurred $8.9 million in costs associated with the offering comprised of underwriting costs of $4.9 million and $4.0 million of other costs. These costs have been allocated $6.2 million against Units and $2.7 million to the Fraser Units.

As at June 30, 2006 the Fund had 8,450,643 Units issued and outstanding. Assuming the full conversion of the Fraser Units and the Class B Interest Liability described above, at June 30, 2006 the Fund would have 16,571,453 Units outstanding.

(unaudited) (All figures in Canadian dollars unless otherwise stated)

The weighted average number of Units outstanding for basic net income per Unit is determined by dividing net income by the total number of Units and Fraser Units outstanding. Diluted net income per Unit for the three and five month periods ended June 30, 2006, respectively, was calculated as follows:

Reconciliation to net income:

millions	Three-Months Ended June 30, 2006	Five-Months Ended June 30, 2006
Net income (loss)	$ (0.3)	$ 4.2
Add (deduct)		
Interest expense of Class B Interest Liability of a subsidiary	—	1.6
Gain on Class B Interest Liability of a subsidiary	—	(3.6)
Diluted net income (loss) available for unitholders	$ (0.3)	$ 2.2

Reconciliation of number of Units:

thousands		
Weighted average number of Units		
Units	8,450	8,450
Fraser units	3,614	3,614
Basic weighted average number of Units	12,064	12,064
Conversion of Class B Interest Liability of a subsidiary	—	4,507
Diluted weighted average number of Units	12,064	16,571

The Class B Interest Liability was anti-dilutive for the three-months ended June 30, 2006 due to the net loss for the period.

NOTE 9. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amount.

a) Concurrent with the Offering, Acadian entered into a number of fibre supply agreements whereby Acadian has agreed to provide fibre to Fraser Papers and Brookfield for periods of up to 20 years. In addition, Acadian has agreed to administer certain licenses on behalf of Fraser Papers. Total net sales to Fraser Papers and Brookfield during the three months ended June 30, 2006 amounted to $3.2 million and $0.4 million, respectively which represented 33% of consolidated net sales. Included in accounts receivable at June 30, 2006 is $1.0 million related to these agreements. Total net sales to Fraser Papers and Brookfield for the five month period ended June 30, 2006 amounted to $10.2 million and $1.2 million.

b) Concurrent with the Offering, Acadian entered into an agreement with Brookfield whereby, Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided in the second quarter amounted to $0.5 million and $0.8 million for the five months ended June 30, 2006. All fees have been fully paid in accordance with the services agreement.

c) Distributions paid or declared to Fraser Papers during the three and five months ended June 30, 2006 totalled $0.6 million and $1.2 million, respectively.

d) Payments on the Class B Interest Liability to Brookfield during the three and five months ended June 30, 2006 totalled $1.0 million and $1.6 million, respectively.

e) Fraser Papers continues to provide certain administrative services to Acadian under a transitional services agreement. No amounts have been charged for these services.

f) Included in accounts payable and accrued liabilities as at June 30, 2006 is $0.6 million related to a working capital adjustment due to Fraser Papers as part of the acquisition of the NB Timberlands.

NOTE 10. SEGMENTED INFORMATION

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

For the Three Months Ended June 30, 2006	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 4.2	$ 2.2	$ 2.0	$ —
Hardwood	6.5	5.7	0.8	—
Other	0.2	0.2	—	—
Total net sales	10.9	8.1	2.8	—
Operating costs	(10.7)	(8.2)	(2.3)	(0.2)
Earnings (loss) before under noted	0.2	(0.1)	0.5	(0.2)
Depletion and depreciation	(1.2)	(0.7)	(0.5)	—
Operating earnings (loss)	$ (1.0)	$ (0.8)	$ —	$ (0.2)
Gain on Class B Interest Liability of a subsidiary	2.7			
Interest expense	(2.0)			
Net income	$ (0.3)			

For the Five Months Ended June 30, 2006	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 15.3	$ 9.5	$ 5.8	$ —
Hardwood	12.9	11.3	1.6	—
Other	2.1	2.1	—	—
Total net sales	30.3	22.9	7.4	—
Operating costs	(23.2)	(18.0)	(4.8)	(0.4)
Earnings (loss) before under noted	7.1	4.9	2.6	(0.4)
Depletion and depreciation	(3.3)	(2.0)	(1.3)	—
Operating earnings (loss)	$ 3.8	$ 2.9	$ 1.3	$ (0.4)
Gain on Class B Interest Liability of a subsidiary	3.6			
Interest expense	(3.2)			
Net income	$ 4.2			
Capital assets	224.7	138.6	86.1	—
Total assets	$ 235.7	$ 144.8	$ 88.8	$ 2.1

During the three months ended June 30, 2006 approximately 70% of net sales were originated with customers domiciled in the US and the balance in Canada. During the same period approximately 46% of net sales were denominated in US dollars.

Acadian outsources much of its harvesting, transportation and other services which comprise the majority of the Fund's cost of sales. For the three month period ended June 30, 2006, Acadian's top three suppliers accounted for approximately 24%, 12% and 8%, respectively, of the Fund's cost of sales.

Acadian sells its products to many forest product companies in North America. For the three month period ended June 30, 2006, related parties (see Note 9) and the next largest customer accounted for 33% and 22% of net sales, respectively.

Board and Management

MANAGEMENT
Acadian Timber Income Fund's Manager:
Brookfield Timberlands Management LP

Reid Carter
Chief Executive Officer and Managing Partner
of the Manager

Bryan K. Davis
Chief Financial Officer of the Manager

Marcia McKeague
Vice *President, Maine Timberlands*

Luc Ouellet
Vice *President, NB Timberlands*

Corporate and Unitholder Information

www.acadiantimber.com

HEAD OFFICE OF THE MANAGER

Brookfield Timberlands Management LP
(wholly-owned subsidiary of Brookfield Asset Management Inc.)
BCE Place, 181 Bay Street, Suite 200
Toronto, Ontario M5J 2T3

Please direct your inquiries to:
Katherine C. Vyse
SVP, Investor Relations and Communications
t. 416-369-8246
f. 416-365-9542
e. kvyse@acadiantimber.com

TRUSTEE, TRANSFER AGENT AND REGISTRAR

Unitholder inquiries relating to distributions, address changes and unitholder account information should be directed to the Fund's transfer agent:

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
t. 416-643-5500 or
1-800-387-0825 (toll free throughout North America)
f. 416-643-5501
www.cibcmellon.com

UNIT INFORMATION

Toronto Stock Exchange:	ADN.UN
Fully Diluted Units Outstanding (June 30, 2006):	16,571,453
Targeted 2006 Monthly Distribution:	$0.06875 per unit (annual yield 8.25%)
Record Date:	Last business day of each month
Payment Date:	On or about the 15th day of each subsequent month