Q3 2006 Interim Report

President's Letter to Unitholders,

We are pleased to report Acadian Timber Income Fund's solid operating and financial performance for the third quarter ended September 30, 2006. Acadian generated distributable cash flow of $3.6 million or $0.22 per unit. This performance met our operating and financial plans, despite the strong Canadian dollar and weak lumber markets. Acadian remains well positioned to meet distributable cash flow needs going forward.

Consolidated log sales volumes were 371 thousand m^3 during the third quarter, 17 thousand m^3, or 5%, more than the same period last year resulting in a quarter over quarter increase in net sales of $0.6 million. EBITDA was $6.0 million for the third quarter of 2006, $1.2 million higher than the same quarter last year, while EBITDA margins in the quarter were 30% as compared to 25% in the same period last year.

For the eight-months ended September 30, 2006, consolidated log sales volumes were 957 thousand m^3, unchanged from the same period last year. Net sales of $50.0 million were also effectively unchanged year over year. EBITDA of $13.1 million was $1.0 million higher than the comparable period in 2005 and Acadian's EBITDA margin was slightly higher year over year as well.

As we have highlighted over the past two quarters, Acadian experiences significant seasonality in its distributable cash flow. The third quarter of the year traditionally generates approximately 25% of Acadian's annual distributable cash flow and Acadian's performance during the third quarter of 2006 is consistent with this historic trend.

Operations

Operations performed on target in the third quarter, however external market conditions continued to pose the most significant challenge. Softwood sawlog markets came under pressure during the third quarter, resulting in a modest price decline. Partially offsetting this decline, prices for softwood pulpwood showed a moderate increase quarter over quarter due to a fibre shortage in the region. Prices for hemlock, pine and cedar softwood sawlogs and hardwood pulp were relatively unchanged from the previous quarter, while markets for hardwood sawlogs remained firm. Biomass prices were strong during the third quarter and customer inventories remain low resulting in improved margins. Acadian's log sales volumes have not been negatively impacted by the current weak market for softwood sawlogs due to its strong relationships with its customers.

The majority of Acadian's capital expenditures are typically made in the third quarter with $1.3 million of total investments made in the third quarter of 2006. These expenditures were largely confined to silvicultural treatments and road construction and this program is now substantially completed for 2006.

During the quarter, Acadian experienced five reportable incidents among employees and four reportable incidents among contractors and subcontractors, with all incidents occurring at our New Brunswick operations. While these incidents were all relatively minor, they resulted in a total of 112 lost time days. We consider this performance to be unacceptable and the company has carried out individual communications with employees and contractors which have been followed up with comprehensive safety reviews and development of a safety action plan. We view safety performance as a key indicator of company performance and look forward to reporting a significant improvement in safety in future quarters.

Outlook

We continue to expect stable performance at Acadian, despite a challenging market outlook. Current weak lumber markets combined with the possibility of further market-related downtime at regional sawmills, including Fraser Papers' sawmills, is expected to maintain downward pressure on pricing. However, these low prices for softwood sawlogs are expected to be offset by steady prices for pulpwood, hardwood sawlogs and biomass.

During these weak market conditions our primary focus will be on merchandizing all of our products for their highest value while seeking every opportunity to reduce costs. Acadian is committed to an operating style aimed at maximizing long-term value for unitholders. We will continue to make every effort to maintain a stable financial performance while preserving the long-term value of the business.

On October 31st, Canada's Finance Minister, James Flaherty, announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. At this time, it is too early to determine the extent to which the proposed legislation will affect Acadian. We will review the detailed legislation when it becomes available.

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

November 7, 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 September 30, 2006, (herein referred to as the "third quarter") and the eight-month period ended September 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 proforma results of the operations of NB Timberlands and Maine Timberlands for the same periods in 2005. The proforma 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 November 7, 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 Third Quarter Results

The table below summarizes operating and financial data for Acadian:

	Three-Months Ended September 30		Eight-Months Ended September 30	
millions, except per unit data and where indicated	**2006**	2005[1]	**2006**	2005[1]
Total				
Sales volume (000s m^3)	**370.9**	354.1	**956.7**	956.1
Net sales	**$ 19.7**	$ 19.1	**$ 50.0**	$ 50.3
Net income	**0.1**	n/a	**4.3**	n/a
EBITDA	**6.0**	4.8	**13.1**	12.1
EBITDA margin	**30%**	25%	**26%**	24%
Cash available for distribution	**$ 3.6**	n/a	**$ 8.9**	n/a
Distributions declared				
Class A unitholders	**1.8**		**4.7**	
Class B LP unitholders	**0.8**		**2.0**	
Class B Interest of a subsidiary	**0.9**		**2.5**	
	3.5		**9.2**	
Total assets	**$ 236.6**		**$ 236.6**	
Total long-term debt	**77.7**		**77.7**	
Per Unit (fully diluted)				
Net income	**$ 0.01**		**$ 0.23**	
Cash available for distribution per unit	**0.22**		**0.54**	
Distribution declared per unit				
Class A unitholders	**0.21**		**0.55**	
Class B LP unitholders	**0.21**		**0.55**	
Class B Interest of a subsidiary	**0.21**		**0.55**	
Book value	**9.06**		**9.06**	
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 on page 2.*

Cash Available for Distribution

Cash available for distribution for the third quarter and for the eight-months ended September 30, 2006 was $3.6 million and $8.9 million, respectively. 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 Class B LP unitholders were $2.6 million and to Class B Interest holders were $0.9 million. These distributions of $0.06875 per unit 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:

millions	Three-Months Ended September 30 2006	Eight-Months Ended September 30 2006
Net income	$ 0.1	$ 4.3
Add (deduct):		
Non-cash loss / (gain) on Class B Interest Liability of a subsidiary	0.6	(3.0)
Depreciation and depletion	3.3	6.6
Interest expense on long-term debt	1.1	2.7
Distribution on Class B Interest Liability of a subsidiary	0.9	2.5
EBITDA	6.0	13.1
Add (deduct):		
Interest expense on long-term debt	(1.1)	(2.7)
Silviculture and capital expenditures	(1.3)	(1.5)
Cash available for distribution	$ 3.6	$ 8.9
Cash flow from operating activities before non-cash working capital balances	$ 4.0	$ 7.9
Add (deduct):		
Distribution on Class B Interest Liability of a subsidiary	0.9	2.5
Silviculture and capital expenditures	(1.3)	(1.5)
Cash available for distribution	$ 3.6	$ 8.9
Distributions declared	$ 3.5	$ 9.2

Results of Operations

The third quarter typically generates approximately 25% of annual sales and cash flow. The results for the third quarter of 2006, were in line with our expectations. Acadian generated net sales of $19.7 million and EBITDA of $6.0 million on a consolidated log sales volume of 371 thousand m^3.

Consolidated sales volumes in the third quarter of 2006 were 17 thousand m^3, or 5%, higher than the same period last year and net sales were $19.7 million, $0.6 million or 3% higher than the same period in 2005. For the eight-months ended September 30, 2006, consolidated log sales volumes were 957 thousand m^3, effectively unchanged from the same period last year, while net sales were down by $0.3 million or 1%, slightly lower than last year.

EBITDA of $6.0 million for the third quarter was $1.2 million, or 25%, greater than the same period of last year, resulting in an EBITDA margin of 30% versus 25%, respectively. The year-over-year EBITDA margin increase in the third quarter is attributable to a more favorable species mix and operating in a lower cost region in 2006. For the eight-months ended September 30, 2006, Acadian generated EBITDA of $13.1 million, up by $1.0 million, or 8%, over the same period of 2005 resulting in an EBITDA margin of 26% versus 24% in the same period last year.

Included in net income for the third quarter of 2006, is a non-cash loss 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 arising from a decrease in Acadian's unit price or loss arising from an increase in Acadian's unit price included in the statement of operations. In addition, as this Canadian dollar liability has been issued by a self-sustaining U.S. dollar subsidiary of the Fund, the obligation is required to be converted to U.S. dollars at each reporting period, with the corresponding gain or loss included in the statement of operations. These items resulted in a $0.6 million mark-to-market loss for the third quarter and a $3.0 million gain for the eight-months ended September 30, 2006, comprising a $0.8 million foreign exchange loss and a $3.8 million mark-to-market gain.

Market Conditions

Consistent with the significant decline in lumber prices over the past six months, softwood sawlog markets came under pressure during the third quarter, resulting in a modest price decline. Partially offsetting this decline, prices for softwood pulpwood showed a moderate increase quarter over quarter due to a fibre shortage in the region. Prices for hemlock, pine and cedar softwood sawlogs and hardwood pulp were relatively unchanged from the previous quarter, while markets for hardwood sawlogs remained firm. Biomass prices were strong during the third quarter and customer inventories remain low resulting in improved margins.

Lumber and panel customers in Acadian's broader operating region continued to experience difficult market conditions during the third quarter. Weak lumber prices, the strong Canadian dollar and over-supplied dimension lumber and structural panel markets resulted in market-related closures and reduced production at several regional sawmills, including Fraser Papers' Plaster Rock and Juniper sawmills. Despite the current weak market conditions, Acadian has not had difficulties selling its log volumes.

Despite the difficult market faced by Acadian's softwood customers, who experienced a 21% decline in lumber prices year over year, prices for Acadian's softwood sawlogs remained flat year over year, demonstrating the stability of timber prices relative to lumber prices and sustainability of Acadian's cash flows.

Segmented Results of Operations

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

	Three-Months Ended September 30, 2006				Three-Months Ended September 30, 2005[1]			
millions	NB Timberlands	Maine Timberlands	Corporate	Consolidated	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m^3)	292.9	78.0	—	370.9	277.6	76.5	—	354.1
Net sales	$ 15.1	$ 4.6	$ —	$ 19.7	$ 14.3	$ 4.8	$ —	$ 19.1
EBITDA	$ 4.5	$ 1.4	$ 0.1	$ 6.0	$ 3.4	$ 1.4	$ —	$ 4.8
EBITDA margin	30%	30%	n/a	30%	24%	29%	n/a	25%

	Eight-Months Ended September 30, 2006				Eight-Months Ended September 30, 2005[1]			
millions	NB Timberlands	Maine Timberlands	Corporate	Consolidated	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m^3)	755.9	200.8	—	956.7	784.8	171.3	—	956.1
Net sales	$ 38.0	$ 12.0	$ —	$ 50.0	$ 39.4	$ 10.9	$ —	$ 50.3
EBITDA	$ 9.4	$ 4.0	$ (0.3)	$ 13.1	$ 8.6	$ 3.5	$ —	$ 12.1
EBITDA margin	25%	33%	n/a	26%	22%	32%	n/a	24%

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 September 30, 2006			Three-Months Ended September 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m³)	*(000s m³)*	*(millions)*	*(000s m³)*	*(000s m³)*	*(millions)*
Softwood	101.4	97.6	$ 6.2	96.3	88.7	$ 5.3
Hardwood	122.7	127.8	6.6	144.7	110.9	7.1
Biomass	67.5	67.5	1.4	78.0	78.0	1.6
	291.6	292.9	14.2	319.0	277.6	14.0
Other sales			0.9			0.3
Net sales			$ 15.1			$ 14.3
EBITDA			$ 4.5			$ 3.4
EBITDA margin			30%			24%

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

	Eight-Months Ended September 30, 2006			Eight-Months Ended September 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m³)	*(000s m³)*	*(millions)*	*(000s m³)*	*(000s m³)*	*(millions)*
Softwood	203.8	242.1	$ 15.7	249.9	253.3	$ 16.0
Hardwood	318.4	342.9	18.1	326.5	319.1	18.3
Biomass	170.9	170.9	3.1	212.3	212.4	4.6
	693.1	755.9	36.9	788.7	784.8	38.9
Other sales			1.1			0.5
Net sales			$ 38.0			$ 39.4
EBITDA			$ 9.4			$ 8.6
EBITDA margin			25%			22%

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

Softwood, hardwood and biomass shipments were 98 thousand m^3, 128 thousand m^3 and 68 thousand m^3 for the third quarter, respectively, an increase of 10% and 15% for softwood and hardwood and a decline of 13% for biomass compared to the same quarter in 2005. Approximately 35% of sales volumes were sold as sawlogs, 42% as pulpwood and 23% as biomass in the third quarter of 2006.

Net sales for the third quarter were $15.1 million, up 6% from the same period of last year, which largely reflects the higher spruce-fir sawlog sales volumes. For the eight-months ended September 30, 2006, net sales decreased $1.4 million, or 4%, compared to the same period in 2005 due to lower volumes sold in the second quarter of 2006.

Costs for the third quarter were $10.6 million, a 3% decrease compared to the same period last year. This decrease was attributable to lower harvest volumes, reflecting the variable cost nature of the business.

EBITDA for the third quarter was $4.5 million, compared to $3.4 million in the same period last year. For the eight-months ended September 30, 2006, EBITDA was up 9% while EBITDA margin of 25% increased from 22% in 2005, reflecting improved pricing for softwood sawlogs and pulpwood and increased softwood sawlog volumes.

Operations performed well in the third quarter while external market conditions continued to be the most significant challenge. Hardwood pulpwood demand decreased during the third quarter mainly due to higher inventories at the facilities and pressure increased on softwood and hardwood sawlogs pricing towards the end of the quarter. Silviculture operations were completed as per plan.

NB Timberlands experienced five reportable incidents among employees of which four were relatively minor accidents in the company's precommercial thinning operations and one in conventional logging operations. The company's contractors had four reportable incidents during the quarter, resulting in a total of 112 work days of lost time in total. Individual communications with employees and contractors was followed up with comprehensive safety reviews and development of a safety action plan.

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 September 30, 2006			Three-Months Ended September 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	*(000s m^3)*	*(millions)*	*(000s m^3)*	*(000s m^3)*	*(millions)*
Softwood	57.3	57.3	$ 3.5	54.5	54.5	$ 3.9
Hardwood	19.8	18.4	0.8	18.5	18.5	0.9
Biomass	2.3	2.3	0.1	3.5	3.5	—
	79.4	78.0	4.4	76.5	76.5	4.8
Other sales			0.2			—
Net sales			$ 4.6			$ 4.8
EBITDA			$ 1.4			$ 1.4
EBITDA margin			30%			29%

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

	Eight-Months Ended September 30, 2006			Eight-Months Ended September 30, 2005[1]		
	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	*(000s m^3)*	*(millions)*	*(000s m^3)*	*(000s m^3)*	*(millions)*
Softwood	145.7	145.7	$ 9.3	125.6	125.6	$ 8.7
Hardwood	48.8	47.4	2.4	39.5	39.5	2.2
Biomass	7.7	7.7	0.1	6.2	6.2	—
	202.2	200.8	11.8	171.3	171.3	10.9
Other sales			0.2			—
Net sales			$ 12.0			$ 10.9
EBITDA			$ 4.0			$ 3.5
EBITDA margin			33%			32%

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

Maine Timberlands produced solid operating results in the third quarter with softwood and hardwood shipments of 57 thousand m^3 and 18 thousand m^3 respectively, consistent with results in the same period in 2005. Approximately 56% of shipment volume was sold as sawlogs, 41% as pulpwood and 3% as biomass in the third quarter of 2006.

Net sales for the third quarter were $4.6 million, down 4% from the same period in 2005. For the eight-months ended September 30, 2006, net sales of $12.0 million were up 10% over the same period in 2005 due to higher volumes sold in the second quarter of 2006.

Cost for the third quarter were $3.2 million, a decrease of 6% compared to the same period of 2005. This decrease was attributable primarily to the change in exchange rates. For the eight-months ended September 30, 2006, costs were $0.6 million higher due to higher harvest volumes and timing of access road construction and maintenance costs.

EBITDA for the third quarter was $1.4 million, which was consistent with the same period last year. For the eight-months ended September 30, 2006, EBITDA of $4.0 million was up 14% over the same period in 2005. EBITDA margin was 30% for the third quarter, compared to an EBITDA margin of 29% for the same period in 2005, largely reflecting higher sales volumes in 2006.

The Maine Timberlands third quarter focused on production and silviculture activities with silviculture work and expenses now completed for the year.

Maine Timberlands completed the buyout of a cutting rights agreement for $0.2 million this quarter, which provides it with full ownership of the timber on a tract it acquired in 2005. The buyout of the cutting rights agreement allows Maine Timberlands to retain any income earned from timber harvests on the tract in the future.

The sale of the Georgia-Pacific Old Town mill was announced this quarter. Several companies plan to operate businesses out of this mill location, but none with the intent of using hardwood pulpwood roundwood. The biomass boiler is expected to operate and may use biomass fuel as well as demolition debris. This decision will essentially have no impact on Acadian as management has found alternative markets for its hardwood pulpwood since Georgia-Pacific closed this mill in March 2006.

In the third quarter of 2006, Maine Timberlands had no accidents among employees and contractors.

Financial Position

As at September 30, 2006, Acadian's balance sheet consisted of total assets of $236.6 million, represented primarily by timberlands and logging roads of $222.4 million and the balance in cash and working capital of $14.2 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 Fund's Trustees.

Silviculture and capital expenditures for the third quarter were $1.3 million and are in line with management's estimate of annual silviculture and capital expenditures of $1.3 million. As expected, these expenditures were primarily in the third quarter with minimal expenses expected for the balance of the 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, present 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 September 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 September 30, 2006.

Outstanding Units

As at September 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 entitles 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 U.S. dollar equivalent on the date of such distribution of the lesser of (i) $0.075625, being 110% of the initial monthly distribution per unit, and (ii) the then most recently announced distribution per unit.

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

	As at September 30, 2006	
	Units	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 be able to access alternative markets for this volume. 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 NB Timberlands operations are expected to have a considerably more favourable species mix for the remainder of 2006 with higher margin softwood sawlogs expected to account for over 55% of harvest volumes, excluding biomass, versus only 36% during the first eight months of this year.

On October 31st, Canada's Finance Minister, James Flaherty, announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. At this time, it is too early to determine the extent to which the proposed legislation will affect Acadian. We will review the detailed legislation when it becomes available and in the meantime, continue to build the business to create long-term sustainable value for unitholders.

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	Q3	Q2	Q1[1]	Q4	Q3	Q2	Q1	Q4
Sales volume (000s m^3)	371	245	341	399	354	267	455	380
Net sales	$ 19.7	$ 10.9	$ 19.4	$ 22.5	$ 19.1	$ 13.2	$ 25.5	$ 21.4
EBITDA[3]	$ 6.0	$ 0.2	$ 6.9	$ 6.6	$ 4.8	$ 1.3	$ 8.8	$ 5.3
Distributable cash	$ 3.6	$ (1.0)	$ 6.3	n/a	n/a	n/a	n/a	n/a
Net income	$ 0.1	$ (0.3)	$ 4.5	n/a	n/a	n/a	n/a	n/a
Net income per unit - basic	$ 0.01	$ (0.02)	$ 0.37	n/a	n/a	n/a	n/a	n/a
Net income per unit - diluted	$ 0.01	$ (0.02)	$ 0.27	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 a working capital price adjustment which has been finalized during 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 sales to Fraser Papers and Brookfield during the three months ended September 30, 2006 amounted to $14.7 million and $0.8 million, respectively which represented 51% of consolidated total sales. Included in accounts receivable at September 30, 2006 is $2.3 million related to these agreements. Total sales to Fraser Papers and Brookfield for the eight month period ended September 30, 2006 amounted to $24.9 million and $2.0 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 third quarter totalled $0.5 million and $1.3 million for the eight months ended September 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 eight-months ended September 30, 2006 totalled $0.8 million and $2.0 million, respectively.

d) Payments on the Class B Interest Liability to Brookfield during the three and eight-months ended September 30, 2006 totalled $0.9 million and $2.5 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 September 30, 2006 is $0.5 million related to a working capital adjustment due to Fraser Papers as part of the acquisition of the NB Timberlands.

g) Included in account payable and accrued liabilities as at September 30, 2006 is $1.1 million related to a working capital adjustment due to Katahdin Timberlands LLC.

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	41.2	41.2	—	—	—	41.2
Term loan facility	35.7	35.7	—	—	35.7	—
	$ 123.9	$ 118.9	$ —	$ 42.0	$ 35.7	$ 41.2
Interest expense (i)(ii)		$ 12.6	$ 4.0	$ 6.3	$ 2.3	$ —

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 U.S. dollar conversion of 0.89.

Additional Quarterly Information

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

NB Timberlands

	2006 Q3			2006 Q2			2006 Q1[1]			2005 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	101.4	97.6	$ 6.2	24.8	33.1	$ 2.2	77.6	111.4	$ 7.3	87.9	92.6	$ 5.6
Hardwood	122.7	127.8	6.6	86.6	106.8	5.7	109.1	108.3	5.6	207.4	153.5	9.3
Biomass	67.5	67.5	1.4	53.0	53.0	0.9	50.4	50.4	1.0	63.6	63.6	0.9
	291.6	292.9	14.2	164.4	192.9	8.8	237.1	270.1	13.9	358.9	309.7	15.8
Other Sales			0.9			(0.7)			0.9			0.9
Net sales			$ 15.1			$ 8.1			$ 14.8			$ 16.7
EBITDA[3]			$ 4.5			$ (0.1)			$ 5.0			$ 3.6
EBITDA Margin			30%			(1%)			34%			22%

Maine Timberlands

	2006 Q3			2006 Q2			2006 Q1[1]			2005 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	57.3	57.3	$ 3.5	32.1	32.1	$ 2.0	56.3	56.3	$ 3.8	71.9	71.9	$ 5.1
Hardwood	19.8	18.4	0.8	16.9	16.9	0.8	12.1	12.1	0.8	15.6	15.6	0.7
Biomass	2.3	2.3	0.1	2.9	2.9	—	2.5	2.5	—	2.2	2.2	—
	79.4	78.0	4.4	51.9	51.9	2.8	70.9	70.9	4.6	89.7	89.7	5.8
Other Sales			0.2			—			—			
Net sales			$ 4.6			$ 2.8			$ 4.6			$ 5.8
EBITDA[3]			$ 1.4			$ 0.5			$ 2.1			$ 3.0
EBITDA Margin			30%			18%			46%			52%

Corporate

	2006 Q3			2006 Q2			2006 Q1[1]			2005 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	—	—	$ —	—	—	—	—	—	—	—	—	—
Hardwood			—			—			—			—
Biomass			—			—			—			—
	—	—	—	—	—	—	—	—	—	—	—	—
Other Sales			—			—			—			—
Net sales			$ —			$ —			$ —			$ —
EBITDA[3]			$ 0.1			$ (0.2)			$ (0.2)			n/a
EBITDA Margin			n/a			n/a			n/a			n/a

NB Timberlands

	2005 Q3[2]			2005 Q2[2]			2005 Q1[2]			2004 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	96.3	88.7	$ 5.3	45.8	50.9	$ 3.7	144.7	161.8	$ 9.1	80.7	73.7	$ 4.9
Hardwood	144.7	110.9	7.1	56.7	110.1	6.1	171.2	115.7	6.8	162.1	139.9	7.7
Biomass	78.0	78.0	1.6	74.4	74.4	1.8	78.1	78.2	1.6	68.3	68.3	1.2
	319.0	277.6	14.0	176.9	235.4	11.6	394.0	355.7	17.5	311.1	281.9	13.8
Other Sales			0.3			(0.3)			1.3			1.0
Net sales			$ 14.3			$ 11.3			$ 18.8			$ 14.8
EBITDA[3]			$ 3.4			$ 1.0			$ 6.1			$ 3.4
EBITDA Margin			24%			9%			32%			23%

Maine Timberlands

	2005 Q3[2]			2005 Q2[2]			2005 Q1[2]			2004 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	54.5	54.5	$ 3.9	18.3	18.3	$ 1.2	84.7	84.7	$ 5.9	73.0	73.0	$ 5.0
Hardwood	18.5	18.5	0.9	11.5	11.5	0.7	12.5	12.5	0.7	20.4	20.4	1.5
Biomass	3.5	3.5	—	2.0	2.0	—	1.7	1.7	—	5.1	5.1	—
	76.5	76.5	4.8	31.8	31.8	1.9	98.9	98.9	6.6	98.5	98.5	6.5
Other Sales			—			—			0.1			0.1
Net sales			$ 4.8			$ 1.9			$ 6.7			$ 6.6
EBITDA[3]			$ 1.4			$ 0.3			$ 2.7			$ 1.9
EBITDA Margin			29%			16%			40%			29%

Corporate

	2005 Q3[2]			2005 Q2[2]			2005 Q1[2]			2004 Q4[2]		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*	(000s m^3)	(000s m^3)	*(millions)*
Softwood	—	—	$ —	—	—	—	—	—	—			
Hardwood			—									
Biomass			—									
			—	—	—	—	—	—	—	—	—	—
Other Sales			—									
Net sales			$ —			$ —			$ —			$ —
EBITDA[3]			n/a			n/a			n/a			n/a
EBITDA Margin			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.*

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 September 30 *CAD millions*	Note		2006
Assets			
Current assets			
Cash and cash equivalents		$	6.6
Accounts receivable and other assets	9		5.3
Inventory			2.3
			14.2
Timberlands, logging roads and fixed assets	5		222.4
		$	236.6
Liabilities and unitholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	$	7.9
Distributions payable to unitholders			0.8
			8.7
Long-term debt	6		77.7
Class B Interest Liability of a subsidiary	7		41.2
Unitholders' equity	8		109.0
		$	236.6

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statement of Operations and Deficit

(unaudited)

For the period ended September 30 *CAD millions*	Note	Three-Months Ended 2006	Eight-Months Ended 2006
Net sales		$ 19.7	$ 50.0
Operating costs and expenses			
Cost of sales		12.6	33.3
Selling, administration and other		1.1	3.6
Depreciation and depletion		3.3	6.6
		17.0	43.5
Operating earnings		2.7	6.5
Gain (loss) on Class B Interest Liability of a subsidiary	7	(0.6)	3.0
Interest expense			
Long-term debt		(1.1)	(2.7)
Class B Interest Liability of a subsidiary		(0.9)	(2.5)
Earnings before income taxes		0.1	4.3
Income taxes		—	—
Net income for the period		0.1	4.3
Retained earnings, beginning of period		0.1	—
Unitholders' distributions		(2.6)	(6.7)
Deficit, end of period		$ (2.4)	$ (2.4)
Net income per unit – basic	8	$ 0.01	$ 0.36
Net income per unit – diluted	8	$ 0.01	$ 0.23

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows
(unaudited)

For the period ended September 30 *CAD millions*	Note	Three-Months Ended 2006	Eight-Months Ended 2006
Cash provided by (used for):			
Operating activities			
Net income		$ 0.1	$ 4.3
Items not affecting cash:			
Depreciation and depletion		3.3	6.6
(Gain) loss on Class B Interest Liability of a subsidiary	7	0.6	(3.0)
		4.0	7.9
Net change in non-cash working capital balances		3.2	3.0
		7.2	10.9
Investing activities			
Purchase of New Brunswick Timberlands		—	(106.8)
Purchase of Maine Timberlands		—	(7.5)
Additions to Timberlands, logging roads and fixed assets		(0.6)	(0.6)
Silviculture expenditures		(0.7)	(0.9)
		(1.3)	(115.8)
Financing activities			
Proceeds on issuance of units, gross		—	84.5
Proceeds from long-term debt		—	42.0
Offering costs paid		—	(9.1)
Distributions paid to unitholders		(2.6)	(5.9)
		(2.6)	111.5
Increase in cash and cash equivalents during the period		3.3	6.6
Cash and cash equivalents, beginning of period		3.3	—
Cash and cash equivalents, end of period		$ 6.6	$ 6.6

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 September 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 eight-month period from January 31, 2006 to September 30, 2006 and for the three-month period ended September 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, 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 than does 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 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 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 $1.7 million purchase price adjustment. As at September 30, 2006, $0.5 million of 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 allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

millions		
Current assets less accounts payable and accrued liabilities (excluding cash)	$	4.2
Buildings and equipment		1.3
Timberlands and logging roads		139.2
Total, net of cash acquired	$	144.7

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

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 4. ACQUISITION OF THE MAINE TIMBERLANDS

Concurrent with the Offering, Acadian acquired all of the common membership interests of the Maine Timberlands from Brookfield. These interests were acquired for cash consideration of $9.1 million less $1.6 million of cash acquired on acquisition. The acquisition was accounted for using the purchase method. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

millions		
Current assets less account payable and accrued liabilities (excluding cash)	$	(0.3)
Buildings and equipment		0.2
Timberlands and logging roads		88.7
Term loan facility (Note 6)		(36.0)
Class B Interest Liability (Note 7)		(45.1)
Total	$	7.5

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

millions		Book Value		Accumulated Depletion and Depreciation		Net Book Value
Timberlands	$	219.0	$	(6.2)	$	212.8
Logging roads		8.5		(0.3)		8.2
Building and equipment		1.4		—		1.4
	$	228.9	$	(6.5)	$	222.4

NOTE 6. LONG TERM DEBT

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

millions		
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 eight-months ended September 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 September 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 September 30, 2006, Acadian was in compliance with all covenants.

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

The Maine Timberlands secured a term loan facility for up to US$31.5 million which was fully drawn at September 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 September 30, 2006, Maine Timberlands was in compliance with all covenants. The amount payable under this facility totalled $35.7 million at September 30, 2006.

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 $0.075625 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 Maine Timberlands is the U.S. 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 U.S to Canadian dollar exchange rate with the change recorded in income for the period. For the three-months ended September 30, 2006, the revaluation of this interest resulted in a loss of $0.6 million, and a $3.0 million gain for the eight-months ended September 30, 2006. The year-to-date gain is comprised of a $3.8 million mark-to-market gain partially offset by a $0.8 million foreign exchange loss due to the strengthening of the Canadian currency.

NOTE 8. UNITHOLDERS' EQUITY

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

millions		
Units issued and outstanding – 8,450,643 Units	$	78.2
Class B LP units issued and outstanding – 3,613,780 Fraser Units		33.4
Cumulative translation adjustment		(0.2)
Deficit		(2.4)
Total	$	109.0

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 $78.2 million after the allocation of $6.4 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 $9.1 million in costs associated with the offering comprised of underwriting costs of $4.9 million and $4.2 million of other costs. These costs have been allocated $6.4 million against Units and $2.7 million to the Fraser Units.

As at September 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 September 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 eight-month periods ended September 30, 2006, respectively, was calculated as follows:

Reconciliation to net income:

millions	Three-Months Ended September 30, 2006	Eight-Months Ended September 30, 2006
Net income	$ 0.1	$ 4.3
Add (deduct)		
Interest expense of Class B Interest Liability of a subsidiary	—	2.5
(Gain) loss on Class B Interest Liability of a subsidiary	—	(3.0)
Diluted net income available for unitholders	$ 0.1	$ 3.8

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 September 30, 2006.

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 sales to Fraser Papers and Brookfield during the three-months ended September 30, 2006 amounted to $14.7 million and $0.8 million, respectively which represented 51% of consolidated total sales. Included in accounts receivable at September 30, 2006 is $2.3 million related to these agreements. Total sales to Fraser Papers and Brookfield for the eight-month period ended September 30, 2006 amounted to $24.9 million and $2.0 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 third quarter amounted to $0.5 million and $1.3 million for the eight-months ended September 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 eight-months ended September 30, 2006 totalled $0.8 million and $2.0 million, respectively.

d) Payments on the Class B Interest Liability to Brookfield during the three and eight-months ended September 30, 2006 totalled $0.9 million and $2.5 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 September 30, 2006 is $0.5 million related to a working capital adjustment due to Fraser Papers as part of the acquisition of the NB Timberlands.

g) Included in account payable and accrued liabilities as at September 30, 2006 is $1.1 million related to a working capital adjustment due to Katahdin Timberlands LLC.

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 September 30, 2006 millions	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 9.7	$ 6.2	$ 3.5	$ —
Hardwood	7.4	6.6	0.8	—
Other	2.6	2.3	0.3	—
Total net sales	19.7	15.1	4.6	—
Operating costs	(13.7)	(10.6)	(3.2)	0.1
Earnings before under noted	6.0	4.5	1.4	0.1
Depletion and depreciation	(3.3)	(1.6)	(1.6)	(0.1)
Operating earnings	$ 2.7	$ 2.9	$ (0.2)	$ —
Gain on Class B Interest Liability of a subsidiary	(0.6)			
Interest expense	(2.0)			
Net income	$ 0.1			

For the Eight-Months Ended September 30, 2006 millions	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 25.0	$ 15.7	$ 9.3	$ —
Hardwood	20.5	18.1	2.4	—
Other	4.5	4.2	0.3	—
Total net sales	50.0	38.0	12.0	—
Operating costs	(36.9)	(28.6)	(8.0)	(0.3)
Earnings (loss) before under noted	13.1	9.4	4.0	(0.3)
Depletion and depreciation	(6.6)	(3.6)	(2.9)	(0.1)
Operating earnings (loss)	$ 6.5	$ 5.8	$ 1.1	$ (0.4)
Gain on Class B Interest Liability of a subsidiary	3.0			
Interest expense	(5.2)			
Net income	$ 4.3			
Capital assets	222.4	138.0	84.4	—
Total assets	$ 236.6	$ 143.4	$ 86.8	$ 6.4

During the three-months ended September 30, 2006 approximately 23% of total sales were originated with customers domiciled in the U.S. and the balance in Canada. During the same period approximately 22% of total sales were denominated in U.S. 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 September 30, 2006, Acadian's top three suppliers accounted for approximately 16%, 9% and 7%, 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 September 30, 2006, related parties (see Note 9) and the next largest customer accounted for 51% and 12% of total sales, respectively.

NOTE 11. SUBSEQUENT EVENT

On October 31st, Canada's Finance Minister, James Flaherty, announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. At this time, it is too early to determine the extent to which the proposed legislation will affect Acadian. The Fund will review the detailed legislation when it becomes available.

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:
Tracey Wise
Director, Investor Relations and Communications, Retail Funds
t. 416-956-5154
f. 416-363-2856
e. twise@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
800-387-0825 (toll free in North America)
f. 416-643-5501
www.cibcmellon.com

UNIT INFORMATION

Toronto Stock Exchange:	ADN.UN
Fully Diluted Units Outstanding (September 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