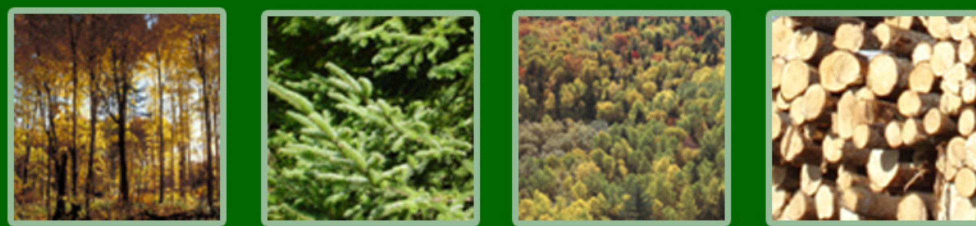

Acadian Timber Corp.
2012 Third Quarter Conference Call Transcript

Date: Wednesday, October 31, 2012

Time: 10:00 AM PT

Speakers:

Mr. Reid Carter
President and Chief Executive Officer

Brian Banfill
Senior Vice President & Chief Financial Officer

OPERATOR:
At this time, I would like to turn the conference over to Mr. Brian Banfill, Senior Vice President and Chief Financial Officer. Please go ahead, sir.

BRIAN BANFILL:
Thank you Operator; and good afternoon everyone. Welcome to Acadian's Third Quarter Conference Call. Before we get started, I would like to call your attention to the following. The conference call is being webcast simultaneously through our website at www.acadiantimber.com, where you can also find a copy of the press release, including the financial statements.

Please note that in responding to questions and talking about our third quarter financial and operating performance, and outlook, for the remainder of 2012 and into 2013, we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information on known risk factors, I encourage you to review Acadian's Annual Information form, dated March 28, 2012, and other filings of Acadian with securities regulatory authorities, which are available on SEDAR at www.sedar.com and on our website.

I will start by outlining the financial highlights for the third quarter. Then Reid Carter, Acadian's Chief Executive Officer, will conclude with more general comments about our operations, market conditions, and outlook for the remainder of 2012 and into 2013. Acadian's third quarter net sales were unchanged from the same period in 2011 at $17.5 million. While the sales volume during the quarter fell 22,000 cubic meters from the same quarter in 2011 to 319,000 cubic meters, a 3% year-over-year increase in the weighted average selling price across all log products, kept net sales consistent with the third quarter of 2011.

Acadian generated EBITDA of $4.4 million, equivalent to 25% of net sales, which was $0.6 million higher than the amount generated in the third quarter of 2011. The weighted average sales price across all softwood and hardwood log products climbed 3% year-over-year, as realized prices for softwood and hardwood logs, which together represented 84% of net log sales, increased 3% and 4%, respectively, year-over-year. While some of the softwood sawlog price increase can be attributed to the delivery point, the majority of the improvement resulted from increased prices in Maine, where demand is solid and in-yard inventories are low.

Net income for the quarter was $5 million. Included in the quarter's net income was a $2.4 million unrealized foreign exchange gain on long-term debt and a $1 million deferred income tax expense. These expenses have not been included in our calculation of adjusted EBITDA or free cash flow and are not reflective of the operating performance of Acadian during the period. Free cash flow improved by $0.3 million over the third quarter of 2011 to $3.5 million, bringing the payout ratio down to 98% from 108% in the same period of the prior year.

I will now, briefly, review the segmented results for Acadian's New Brunswick and Maine operations. The weighted average selling price across all log products at our New Brunswick operations was $56.39 per cubic meter in the third quarter of 2012, up 2% from $55.18 realized in the same period last year. This improvement reflects higher prices for hardwood pulpwood due to strong demand and a greater proportion of deliveries during the period to more distant markets. Net sales were $13.7 million for the third quarter of 2012, down $0.5 million from the same period of 2011.

The decrease in net sales is primarily attributable to a 25,000 cubic meter reduction in sales volumes, as softwood pulpwood harvest levels during the quarter were reduced in response to weak demand. As well, lower softwood pulpwood harvesting rates result in reduced hardwood pulp production, due to the mixed species nature of many of our harvest areas. Sales volume in the third quarter was comprised of approximately 41% sawlogs; 38% pulpwood and 21% biomass. This compares to 34% sold as sawlogs; 44% as pulpwood and 22% as biomass in the third quarter of last year. The decrease in the pulpwood proportion is primarily the result of the current oversupply of softwood pulp logs in the region. Total costs for the third quarter of 2012 were $10.1 million as compared to $10.9 million in the comparable quarter of 2011, as a 7% increase in average variable costs resulting from increased hauling distances to customers was more than offset by the decreased sales volume during the period. Third quarter adjusted EBITDA for the New Brunswick operations was $3.6 million as compared to adjusted EBITDA of $3.4 million in the third quarter of 2011, as an increase in other sales and improved prices for hardwood pulp more than offset the decreased sales volume. Adjusted EBITDA margin increased to 26% as compared to 24% in the third quarter of 2011, reflecting improved log selling prices and a greater contribution from the land management services agreement.

Supported by increased harvest volumes and improved log selling prices, net sales at our Maine timberlands operations in the third quarter improved 16% over the same quarter of the previous year to $3.8 million. More favorable weather conditions compared to the third quarter of 2011 and improved contractor availability were the primary drivers of the 8% increase in harvest volumes, while improved demand for most primary products and a higher value mix of products resulted in the weighted average per unit log sales value for the third quarter rising 9% to $57.80 from $52.90 in the same period of 2011.

Approximately 59% of Maine's volume was sold as sawlogs, 36% as pulpwood, and 5% as biomass. This compares to 60% sold as sawlogs, 34% as pulpwood, and 6% as biomass in the third quarter of 2011. Total cost for the third quarter of 2012 of $2.9 million were $0.2 million higher than in the same period of 2011 with the increase resulting from a 4% increase in sales volume, a contractor rate-driven 2% increase in U.S. dollar-based variable costs, and the weakening of the Canadian dollar. Increased selling prices and sales volume compared to the third quarter of 2011 resulted in adjusted EBITDA from the Maine operations climbing $0.3 million from the prior year to $0.8 million. Adjusted EBITDA margin at 22% of sales for the third quarter of this year was up a solid 5% from the 17% margin realized in the same quarter of 2011.

Capital expenditures across Acadian's operations during the third quarter of 2012 totaled $0.1 million compared to nil in the comparable period of 2011. At the end of the third quarter, Acadian had a cash balance of approximately $6.4 million; a $1.4 million decline from the cash balance at the end of the same quarter of the previous year, but a $0.3 million increase from the balance at the end of the previous quarter. At September 29, 2012, Acadian had the full balance of $10 million of available credit remaining on its credit facility. The balance sheet remains strong, leaving Acadian well-positioned for the future. I will now turn the call over to Reid.

REID CARTER:
Thank you, Brian, and good afternoon. Our strong commitment to safety continues to show positive results with Acadian's operations experiencing just one minor recordable safety incident among employees and two reportable incidents among contractors during the third quarter. As you know, Acadian takes its commitment to safety very seriously, reflecting our belief that emphasizing and achieving a good safety record is a leading indicator of success in the broader business. We remain very, focused on our employee health and safety performance and look forward to maintaining our excellent results in future quarters.

As Brian has noted, the average realized sales price across Acadian softwood and hardwood log products increased 3% year-over-year. This improvement was driven primarily by a 3% increase in softwood sawlog prices and a 4% increase in hardwood pulpwood prices. These two products represented 47% and 37%, respectively, of net log sales during the quarter. The majority of the softwood sawlog price increase was attributable to increased prices in Maine, where customer inventories remained low with reasonably good demand. Hardwood sawlog markets remained strong with a 2% decline in average realized prices for this product simply reflecting changes in product mix. Prices for softwood pulpwood, which made up only 4% of net log sales during the quarter, fell by 0.4%, which despite some modest tightening, continues to reflect an oversupplied market situation. Biomass markets remain challenging, but improved demand led to a modest improvement in gross margins for this product year-over-year.

The U.S. housing market continues to gain momentum; single-family starts are up 26.6% year-over-year through September, while multi-family starts are up 36.2%. In September, housing starts reached a seasonally adjusted annual rate of 872,000; the highest since July 2008 and inventories of new homes available for sale are at 50-year lows. U.S. home pricing appears to have bottomed, with the FHFA and CoreLogic home price indices up nearly 4% over the year and the Case-Shiller 20-City Home Price Index up 4.7%; the largest year-over-year increase since August 2006. Mortgage rates remain at record lows, housing affordability is at near record highs, and mortgage underwriting standards are becoming more accommodative. As I've stated in the past, for the U.S. housing market to fully recover, the economy must continue to improve, inventories of unsold homes and homes in foreclosure must decline to more normal levels, and appraisers and lenders must become convinced that home price declines are coming to an end. The past seven months has offered consistent good news in all of these areas.

Our outlook for the remainder of 2012 and into 2013 remains cautiously optimistic. Demand for spruce/fir sawlogs continues to be reasonably strong with most of Acadian's softwood sawmilling customers maintaining active operations and markets for hardwood sawlogs remained stable and appeared to have a similar outlook for the future. Markets for hardwood pulpwood are reasonably strong with Acadian's major hardwood pulp customers all operating and actively competing for deliveries, suggesting prices remain stable through the remainder of 2012. After several quarters of excess supply, softwood pulpwood markets improved slightly in the third quarter, but we expect demand for softwood pulpwood to remain soft as a result of recent capacity closures. This is particularly true in our New Brunswick operations, where the provincial government has responded to the oversupply situation by allowing crown licensees to leave softwood pulpwood in the woods as an interim solution until markets improved.

We expect demand for softwood pulpwood to remain soft through the remainder of the year; however, this should not significantly affect Acadian's financial performance, as softwood pulpwood typically accounts for less than 6% of total sales and an even smaller proportion of free cash flow. Biomass demand and pricing is expected to continue to face challenges, owing to depressed prices for electricity and decades-low prices for natural gas. Despite this challenging market environment, Acadian continues to be able to sell all of its biomass with a stable outlook for gross margins generated from sales of this product.

In summary, we expect the performance for the remainder of 2012 to be similar to or modestly better than the third quarter of this year and look forward to improving all those still uncertain conditions in 2013. We thank you for your continued support of Acadian Timber Corp. and remain confident in Acadian's long-term outlet and the quality of our asset base. That concludes our formal remarks and we're available to take any questions from participants on the line. Operator.

OPERATOR:
Our first question today comes from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:
Reid, this is a question for you; it was encouraging to see your realized pricing was up in the quarter. You had some cost pressure, as you cited and as Brian cited, just because the hauling distances were increasing. When do you think that turns around and you've got logs being delivered to closer regions so your costs are going to be lower, pricing looks like it's going to continue, especially if the housing market continues to move upward, could you just give us your thoughts on that dynamic that's happening?

REID CARTER:
We have different dynamics in each of our operations, in New Brunswick -- and each of our products. In New Brunswick, for our softwood sawlogs under our fiber supply agreements, the Twin Rivers has first call on those softwood sawlogs. Any volumes they don't take, we then determine the cost with the best margin opportunity and it is margins we're focused on, so higher hauling costs aren't a problem as long as you're offsetting higher selling prices. I think that dynamic will continue to play out, but what we expect is to see probably regional pricing move up and prices under our fiber supply agreement pricing mechanism improve in New Brunswick and see that, -- again, probably see Twin Rivers taking more volume, and they're taking the majority already, and just the overall pricing and margins move up. In Maine, we really sell to whoever are the best customers and it's been a very tight market. I think the prices that sawmills will pay for volumes will really depend on what their own market opportunities are. Prices in Maine have really been quite good. They were surprisingly stable through the downturn and it is a tight market for fiber, so we think that we'll be well positioned to participate in improved lumber pricing through improved log prices. I think it's a steady process. As you know, I think our pricing mechanism with Twin Rivers is on a six-month-trailing basis. We also, as we've announced in previous press releases, moved to a new formula for calculating that pricing mechanism at the start of next year. I think we'll see, while we'll always trail the market by a half year, I think we'll see some benefits of that new mechanism starting with the next half, the first half of 2013.

ANDREW KUSKE:
Okay, that's helpful. Just a bigger broader question as it relates to transactions that have happened in the market for timberlands. What kind of color and commentary can you give on the recent transactions as you look at them on the cash-on-cash yield basis or cap-rate basis versus history and what's really being implied in your view on those transactions?

Within North America, primarily, are we seeing expectations of a fairly significant recovery in timber valuations, or do the valuations, in your view, still remain pretty elevated from what we've seen in a historical context?

REID CARTER:
We've been very actively participating in timber transactions in Australia and Brazil and the U.S. to – well, over the last decade, but certainly over this last year. And there's been – over the past year there's been quite an increase in the number and the scale of transactions. In those that we have participated in, we have seen that -- you know – you never see all color for use in underwriting, for the successful buyer. But using our underwriting assumptions, we find that most transactions are using real unlevered discount rates of between 5% and 5.5%.

Again, as a generalization, I would suggest that the bid/ask spread that was pretty evident between 2009 and 2011, where we had a real dearth of timber transactions, appears to have closed largely in favor of the seller's asking price. Always a generalization, but again, we're seeing transactions going back coming down toward the kinds of rates that we used in most transactions in the 2005-2006-2007 period. There were a number of what we call marquis transactions that took place in that period that went at rates as much as 50 or 100 basis points below that. We haven't seen that happening again, so I'd say we're more at average transaction rates rather than the more expensive deals done at the peak.

ANDREW KUSKE:
Okay, that's very helpful. Thank you very much.

OPERATOR:
The next question comes from Paul Quinn of RBC Capital Markets. Please go ahead.

PAUL QUINN:
Thanks very much. It seems across this North American log market, we haven't seen much of a pickup in log prices, despite a more meaningful pickup in commodity pricing. What are you seeing in your specific East Coast market there in terms of a lag between, say, lumber prices picking up and what you expect to see on the sawlog prices?

REID CARTER:
Well, lumber prices are much, much more volatile than timber prices. In the Northeast, we have seasonal supply issues. You've got, typically, a tremendous amount of production in the first quarter and very little during spring break up in the second, and then, depending on weather, typically good production in the summer. It really depends, I think you shouldn't expect -- while timberland owners have been pretty effective at collecting at least their fair share of the rent across the cycle; I think most of these lumber price increases have been shorter in duration, more volatile, and I think some of our lumber producing customers have had a pretty tough time of it over the last four years. They have to earn some return on their own capital to reinvest in their own plants here. I think their ability and willingness to pay for higher timber prices has been somewhat limited. We don't see the response in New Brunswick, for instance, because of the lag in our fiber supply pricing agreements, but also because about half of the timber in New Brunswick does come from the crown and pricing from the crown license is much less volatile as well, so it moves with a significant lag. In Maine, our market prices, frankly, we've felt that the Maine market has been quite strong and I think we don't feel that we're failing to participate in any way in the recent lumber price recovery in our Maine operations.

PAUL QUINN:
Okay. You guys have done an admirable job over the last number of years managing through some challenging times. Just looking at your growth prospects going forward, and I know you've looked at a number of timberland potential transactions out there, what do you think of the size of Acadian long-term? Are you happy with that; is that something that you want to grow; what do you think strategically around those growth prospects?

REID CARTER:
We've answered this question in the past; it's always a bit tricky to answer. Are we happy with Acadian; we're very pleased with how it's running, we're happy to see our pay-out-ratio coming down below one. We believe our share price today gives us an increasingly competitive currency to look at acquisitions. Regionally, we haven't been enthralled by the investment opportunities in Acadian's direct operating areas, either in Canada or in the Northeastern U.S., but we continue to look. I think long-term, we recognize that Acadian has a really quite a very small float and has liquidity issues and these certainly aren't lost on the Board. But the Board addresses this, really, at each quarterly meeting, continues to explore options, and certainly, we would aim to address these over the longer term, but there's nothing to report today, Paul.

PAUL QUINN:
Okay. That's all I had. Thanks a lot.

OPERATOR:
There are no further questions. I'll hand the call back over to Mr. Carter for any closing comments.

REID CARTER:
Once again, we thank you all for your interest in Acadian Timber Corp. and we certainly look forward to improving the performance, hopefully with a continuing recovery of the U.S housing market and we'll leave it there. Thank you very much.

OPERATOR:
Ladies and gentlemen, this concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.