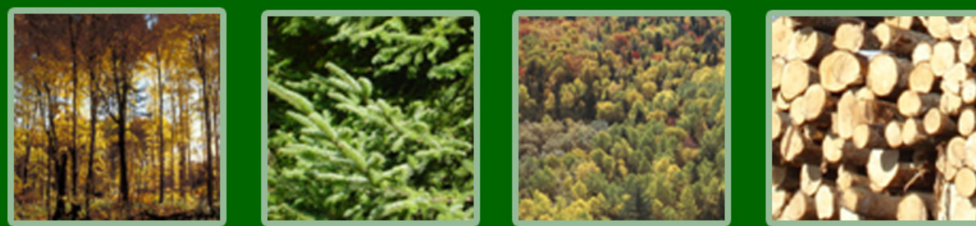

Acadian Timber Corp.
2012 Second Quarter Conference Call Transcript

Date: **Wednesday, August 1, 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 Mr. Banfill.

BRIAN BANFILL:
Thank you Operator and good afternoon everyone. Welcome to Acadian's Second 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 second quarter financial and operating performance and outlook for the second half 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 second quarter, then Reid Carter, our Chief Executive Officer, will conclude with more general comments about our operations, market conditions and outlook for the second half of 2012 and into 2013.

Acadian's second quarter net sales increased $2.5 million over the same period in 2011 to $14.3 million and the sales volume rose 26% to 306,000 cubic meters comparable to 243,000 cubic meters sold in the same period of last year. As we have discussed before, the second quarter, which in Acadian's case corresponds with the Spring mud season, is typically our weakest quarter due to limited access to roads and timberlands as the ground thaws. Our results this year were impacted by these spring break-up conditions, they benefitted from sales carried over from the prior quarter under the short-term vendor managed inventory, or VMI program, discussed in our First Quarter 2012 Interim Report. As for the terms of this agreement, all purchase commitments were filled during the current quarter generating net sales of $3.9 million on a sales volume of 84,000 cubic meters. This was somewhat offset by less favorable operating conditions compared to 2011 and decreased demand for softwood pulpwood in our New Brunswick operations.

Acadian generated adjusted EBITDA of $2.2 million equivalent to 15% of sales which was $1.6 million higher than the amount generated in the second quarter of 2011. These results were also favorably impacted by the VMI program which contributed $1.7 million to adjusted EBITDA, slightly above the indication provided in our first quarter report. The weighted average sales price across all softwood and hardwood products fell 5% year-over-year as prices for softwood saw logs, which represent 40% of net sales, decreased 11% year-over-year. The majority of this decrease was attributable to a greater proportion of Acadian's revenue coming from sales to customers in close proximity to the New Brunswick operations.

Net income for the quarter was $0.6 million. Included in the quarter's net income was a $1.4 million unrealized foreign exchange loss on long-term debt. A $0.8 million positive fair value adjustment and a $0.2 million deferred income tax expense. These expenses have not been included in our calculations of adjusted EBITDA or free cash flow and are not reflective of the operating performance of Acadian during the period. While adjusted EBITDA was $1.6 million higher than the amount generated in the second quarter of 2011, free cash flow gained $2.1 million over the same period due to the timing of cash interest payments.

I will now briefly review the segmented results for Acadian's New Brunswick and Maine operations. The weighted average selling price at our New Brunswick operations was $46.45 per cubic meter in the second quarter of 2012, down 6% from $49.18 realized in the same period last year reflecting a higher proportion of deliveries during the period going to closer proximity customers. Net sales were $12.4 million for the second quarter of 2012, up $1.8 million from $10.6 million in the same period of 2011. This increase is primarily attributable to the impact of the VMI Program but was also affected by decreased harvest volumes as operating conditions were not as favorable as they were in the second quarter of the previous year, and also by decreased demand for softwood pulpwood.

Sales volume in the second quarter was comprised of approximately 39% saw logs, 44% pulpwood and 17% biomass. This compares to 37% sold as saw logs, 48% as pulpwood and 15% as biomass, in the second quarter of last year, with the increase in the saw log proportion resulting from the aforementioned VMI Program. Total costs for the second quarter of 2012 were $9.9 million as compared to $9.5 million in the comparable quarter of 2011 as a 9% decrease in average variable cost resulting from decreased hauling distance to customers; largely offset the increased sales volume during the period.

Second quarter adjusted EBITDA for the New Brunswick operations was $2.5 million as compared to adjusted EBITDA of $1.5 million in the second quarter of 2011 as approximately $1.7 million of adjusted EBITDA was realized from the VMI Program. Adjusted EBITDA increased to 20% as compared to 11% for the second quarter of 2011 reflecting the effect of increased sales volume on fixed cost absorption.

In our Maine timberlands operation net sales in the second quarter were $1.9 million on a sales volume of 35,000 cubic meters and almost 70% improvement over net sales of $1.1 million on a sales volume of 21,000 cubic meters in the comparable period of 2011. Per-unit sales values in the current quarter were almost unchanged from the 2011 levels but the strategies implemented to improve contractor availability together with favorable operating conditions resulted in increased sales volume. Prices for most products improved on a year-over-year basis but modest changes in the mix of products and an increased proportion of biomass sold on a roadside rather than delivered basis combined to keep the average per-unit sales values for the second quarter of $49.90, almost unchanged from the value of $49.61 in the same period of 2011.

Approximately 52% of Maine's volume was sold as saw logs, 35% as pulpwood and 13% as biomass. This compares to 50% sold as saw logs, 40% as pulpwood and 10% as biomass in the second quarter of 2011. Total cost for the second quarter of 2012 of $1.9 million were $0.6 million higher than in the same period of 2011. This increase was primarily the result of the 39% increase in harvest volumes, but variable cost per cubic meter, in Canadian dollar terms, did increase by 7% due to changes in contractor rates driven by increased fuel costs and greater distances from the harvest site to mill delivery locations.

Increased sales volumes compared to the second quarter of 2011 resulted in adjusted EBITDA climbing $0.7 million for the Maine operations to $1.8 million from $1.1 million in the prior year. Adjusted EBITDA at 24% of sales for the second quarter of this year was almost unchanged from the 22% margin realized in the second quarter of 2011. Capital expenditures in Acadian's operations during the second quarter of 2012 totaled $0.1 million compared to nil in the comparable period of 2011. At the end of the second quarter Acadian had a cash balance of approximately $6.1 million, a modest $0.4 million decline from the cash balance, both at the end of the previous quarter and at the end of the same quarter of the previous year.

At June 30, 2012 Acadian had the full balance of $10 million U.S. of available credit remaining on its revolving facility. Our 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 no reportable incidents among contractors during the second 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 employee health and safety performance and look forward to maintaining our excellent results in future quarters.

As Brian mentioned, the second quarter of the year is traditionally our weakest due to seasonal operating conditions. While this remained true for 2012 our results benefitted both from the sale of logs held in inventory at the end of the first quarter under the VMI program, in our New Brunswick operations, and from an early return to operations owing to warm, dry conditions. We also benefitted from improved contractor availability in our Maine operations.

While I caution that the traditionally low level of production and sales in the second quarter leads to considerable volatility in period-over-period price comparisons reducing the utility, the reported prices across Acadian's softwood and hardwood products did decrease 5% year-over-year. Softwood saw log prices which represent 40% of net sales decreased 11% year-over-year. However, it's important to note that this change is not reflective of a change in market conditions, but instead resulted from a greater proportion of total sales coming from the New Brunswick operations with a greater proportion of those sales made to closer proximity markets with these lower realized sales prices being largely offset by lower freight costs. Prices for hardwood saw logs increased by 7% and selling prices for hardwood and softwood pulpwood increased by 3% and decreased by 3% respectively, year-over-year. Biomass markets remained stable but challenging.

U.S. housing market appears to be gradually gaining momentum. Milder than usual weather in the Northeast and Midwest during the seasonably slow winter months, modest gains in employment, increased household formations and a resurgent demand for apartments has led to a significant improvement in new construction and sales during the first six months of 2012. Single-family starts are 20% ahead of the year ago pace, through June, with multi-family starts up an impressive 45%. As well, the inventory of existing homes for sale declined by 20% year-over-year in June and home prices have firmed up. We believe the first half of 2012 has been a promising start to the recovery of the U.S. housing market but we continue to expect that this recovery will be gradual with normalization of home inventories, the recovery of new home construction to trend levels not expected before 2014 to 2015.

I would look for the remainder of 2012 and into 2013 remains cautiously optimistic as demand for spruce for saw logs continues to be reasonably strong with most of Acadian's softwood sawmilling customers maintaining active operations. Markets for hardwood saw logs remain stable and appear to have a similar outlook for the foreseeable future. Markets for hardwood pulpwood are reasonably strong with Acadian's major hardwood pulp customers all operating and actively competing for deliveries suggesting prices will remain stable through the second half of 2012.

Softwood pulpwood markets are increasingly soft as there has been ample supply of sawmill residuals and too little demand from regional pulp mills. 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 improve. We expect markets for softwood pulp will be very challenging through the remainder of the year and expect prices to continue to soften. However, this should not significantly affect Acadian's financial performance as softwood pulpwood typically accounts for only 7% to 8% of total sales and an even smaller proportion of total cash flows. Biomass markets continue to face significant market challenges. Coal generation plants associated with manufacturing facilities are generally in good shape, while standalone wood-to-energy plants continue to suffer from depressed prices for electricity and decade-low prices for natural gas. Despite this challenging market environment, Acadian continues to be able to sell all of its biomass with a stable price outlook.

In summary, we expect the remainder of 2012 to present improving, although uncertain conditions. We thank you for your continued support of Acadian Timber Corporation and we remain confident in Acadian's long-term outlook 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:
Thank you. We will now begin the question-and-answer session. The first question today comes from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:
Thank you, good afternoon. I guess the question is for Reid and it's just in relation to acquisitions and potential acquisitions in the market. We saw Brookfield Infrastructure Partners a couple of days ago announce that they're exploring some strategic alternatives to divest of its timber and some other noncore assets. So just on the timber side they're obviously exposed on the West coast which is very different than the geographic mandate of Acadian but I'm just wondering from a perspective of Acadian, what interest would you have in those assets; what would the steps be to effectively broaden your mandate and possibly raise the profile of Acadian in the capital markets?

REID CARTER:
Thanks Andrew. I've got a couple of comments on that. First of all, the comments made by Brookfield Infrastructure Partners really reflect the possibility of a repositioning of some timber assets within Brookfield and the possibility of just normal recycling of some portions of some positions that Brookfield Infrastructure Partners may have in their current timberlands investments. Certainly in no way reflects on Brookfield's part, any reduction in interest in the timberlands asset class or commitment to the timberland's asset class. But in terms of your question regarding Acadian, Acadian doesn't strictly, although it has effectively a right of first refusal on timberlands within Brookfield as a manager for timberlands in the 10 most Northeastern states and Ontario eastward in Canada, its mandate certainly could go much farther. There's no restriction on its mandate in the rest of North America or globally.

The challenge for Acadian has always been the competiveness of its currency whether its share price, whether we can make an accretive acquisition when competing against either other U.S. public timber REITS or private equity timberland investors. We look at all those options. I think we would certainly like to grow Acadian, and the challenge has been to find good accretive acquisitions. Our share price certainly has been performing well and I think that does create some possibilities, but there's nothing underway at this time. We, as a manager, Brookfield has looked at well over 175, I guess we've done underwriting on over 175 different acquisition opportunities over the last eight or nine years. So we're always very much in the market place and always looking for opportunities for Acadian to grow.

ANDREW KUSKE:
That's very helpful. Then just on the acquisition theme, there have been a couple of parcels that have traded hands in the last little while, but really outside of your direct mandate, but in the U.S. and then also in Australia.

If you could just give us a sense of pricing of the deals that have transacted in the marketplace and what you think that means from an Acadian perspective, and really just broadly for timberlands in general.

REID CARTER:
Owing to some confidentiality restriction on some of those transactions I have to be very general in what I say, but I think, as I mentioned a moment ago, we're involved in effectively all of the major transactions, certainly all that would become visible publicly. And it's been our experience that using our underwriting assumptions, that most of those transactions have been transacting with discount rates of in the very low 5's, between 5% and 5.25%, unlevered real type rates. There certainly seems to be very significant competition in the U.S., Pacific Northwest and Australia, but really I would say globally, whether it's New Zealand or Latin America, it's our belief there's a significant amount of capital despite the recent transactions and the recent very large transaction by Hancock's purchase of Forest Capital Partners. We still think there's considerable capital out there available for timberland investments and seeking timberland investments.

ANDREW KUSKE:
Okay. That's helpful. And then if I may, one final question and it's just on the announcement this morning of CEP and the CAW effectively becoming a larger union organization. What direct and indirect impacts would there be on Acadian's operations?

REID CARTER:
I would say there are no direct and really no anticipated indirect implications. We have generally found that we can work very effectively with our unions, they've been good partners in our businesses and we don't have any expectation of any change coming from that.

ANDREW KUSKE:
Okay. Thank you very much.

OPERATOR:
The next question comes from Amy MacKenzie of Telegraph Journal. Please go ahead.

AMY MACKENZIE:
Hi there. This question is for Reid. I'm concerned about the oversupply of softwood, pulpwood in New Brunswick and I'm just curious how has the oversupply of softwood pulpwood in New Brunswick affected Acadian's business this quarter?

REID CARTER:
The closure of at least four regional softwood, ground wood and kraft mills has changed the dynamic for the wood supply, significantly, throughout the Maritimes, Eastern Canada, certainly Maine. And there is now an oversupply of softwood pulpwood, certainly in New Brunswick. We have two concerns about it, one is-- our most important concern is to make sure that the converting customers, particularly the sawmills, have an active market for their residuals. Certainly from the timberlands business perspective, our real profits come from the selling of saw logs not from the selling of particularly softwood pulpwood; hardwood pulpwood is a little more important to us.

So the New Brunswick Crown's decision to allow softwood pulpwood to be left in the woods has been quite beneficial in that it has kept supply of softwood pulpwood down, allow the saw millers to have a more robust market for the residuals. We've been beneficiaries of that as have the small non-industrial woodlot owners in that we've continued to have an active market for our own pulp logs. We have a private supply agreements with the large regional customers that certainly haven't insulated us from it. We've seen, as we mentioned in our press release, softwood pulp prices come down, but my real belief is this is a long-term problem, this isn't a transient problem. Clearly it relates to the change in domestic consumption of that product. I think really, until an alternative market is created we expect that softwood pulp will be a much smaller contributor to our overall earnings and cash flow.

AMY MACKENZIE:
Okay great, thank you so much.

OPERATOR:
There are no more questions at this time. I will now turn the call back over to over to Mr. Carter for concluding comments.

REID CARTER:
Well, thank you very much for your interest in Acadian, we always appreciate hearing from you. If there's any follow-up questions please don't hesitate to reach out to Brian or myself. And again, thank you very much for your attention. Enjoy the rest of your day.

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