

# Q1 2017 Interim Report

## Letter to Shareholders

### Overview

Acadian Timber Corp (“Acadian”) maintained its momentum and posted strong performance for the three-month period ended March 25, 2017 (the “first quarter”). For the quarter we generated Adjusted EBITDA<sup>1</sup> of \$8.0 million up from \$7.0 million from last year, as our operations benefitted from favourable winter harvest conditions driving a 10% increase in harvest volumes compared to the same quarter of 2016. Demand for most of our products continues to be solid, with our average log selling price remaining in line with the end of last year. This represents a payout ratio of 62%, which is comfortably below our long term annual target of 95% but in-line with expectations given the seasonality of our operations.

### Results of Operations

Acadian’s operations had no recordable safety incidents during the quarter among employees and one among contractors. While the incident resulted in lost time, overall the injuries were relatively minor in nature. We continue to focus on maintaining our strong commitment to safety performance.

For the first quarter, Acadian generated net sales of \$23.1 million compared to \$21.4 million in the comparable period of 2016, driven primarily by favourable winter harvest conditions, particularly for spruce and fir stands. Total sales volumes were 18% higher than the same period in the prior year, driven by a 34% increase in softwood sawlog sales volumes. Sales volumes for other non-biomass products were in-line with the same period in the prior year. The increase in sales volumes was partially offset by a 6% decrease in the weighted average log selling price due to a year-on-year decline in the U.S. dollar exchange rate, unfavorable mix and weaker pricing for hardwood products. Adjusted EBITDA margin<sup>1</sup> for the quarter was 35%, up from 33% in the same period last year, as the aforementioned decrease in average selling price was more than offset by operating leverage from higher sales volumes and the benefit of higher and better use (HBU) land sales in Maine.

Our balance sheet is solid with \$100.5 million of net liquidity as at March 25, 2017, including funds available under Acadian’s Revolving Facility and our stand-by equity commitment with Brookfield.

### Outlook<sup>2</sup>

Acadian’s key markets include softwood sawtimber, hardwood sawtimber and hardwood pulpwood. Northeast North American softwood dimension sawmills represent over one third of Acadian’s end-use market and are the primary market for our softwood sawtimber. Economic forecasters continue to call for steady growth in housing starts, with year-over-year improvements averaging over 7% in each of 2017 and 2018. As a result, North American sawtimber demand is expected to grow at over 3% per year over the next few years to support expanding domestic construction needs.

Despite the expectation for steadily improving lumber consumption, the near to medium term outlook for softwood sawtimber pricing remains uncertain in the face of expected punitive duties to be imposed by the U.S. Government on imports of Canadian softwood lumber. Preliminary countervailing duties (CVD) averaging 19.9% were announced last week, and anti-dumping duties (ADD) are scheduled to be announced in late June. Lumber prices jumped significantly through the first quarter in anticipation of high duty levels expected to be applied retroactively. As in past disputes, we have been anticipating relatively high initial combined duties, which are likely to be reduced over time during the litigation period. We anticipate a highly politicized process may obscure visibility on progress towards a negotiated settlement for at least most of 2017.

During past U.S./Canada softwood lumber disputes, Canada’s Atlantic lumber producers, along with Québec border mills, experienced lower relative CVD & ADD duties than the rest of Canada and were ultimately exempted in past negotiated settlements due to the significantly greater proportion of private timberlands in the Atlantic region relative to the rest of Canada, as well as a long history of active cross-border log exports within the Northeast region. However, there is little current visibility as to where final duty determination will land for the region at the end of this year, and in fact whether the region will be exempted from any final settlement as in the past.

Hardwood sawtimber markets, typically oriented to millwork and higher value specialty markets, are expected to remain at healthy current levels throughout the upcoming year. While hardwood pulpwood markets remain historically very strong, we expect seasonally high consumer inventories will continue to impact pricing through mid-year, and in any case, remain

vulnerable in the current strong U.S. dollar environment. While continued oversupply of softwood sawmill residuals and softwood pulpwood markets remains a concern, we anticipate regional timberland owners will continue to target reduced pulpwood harvest levels through 2017. Biomass is also an important market for Acadian. We anticipate domestic biomass markets will remain stable in New Brunswick and expect a gradual recovery in export volumes during the second half of the year. Maine's biomass market appears positioned for a gradual recovery as state subsidies and higher natural gas pricing have supported the restart of three previously idled biomass generation facilities.

As always, Acadian management remains vigilant in pursuing cost efficiencies across the business. With a strong balance sheet, and highly capable operating team, we are well positioned to meet our recently increased quarterly distributable cash commitments over the coming year. While no shares were repurchased under our normal course issuer bid established during the first quarter of this year, we will continue to seek opportunities to do so at the appropriate share valuation. On behalf of the board and management of Acadian, I would like to thank all our shareholders for their ongoing support.



Mark Bishop  
President and Chief Executive Officer  
May 3, 2017

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1. Adjusted EBITDA, Adjusted EBITDA margin and Free Cash Flow are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of Acadian's operating performance. Acadian's management defines Adjusted EBITDA as earnings before interest, taxes, fair value adjustments, recovery of or impairment of land and roads, unrealized exchange gain/loss on debt, depreciation and amortization and Adjusted EBITDA margin as Adjusted EBITDA as a percentage of its total revenue. Free Cash Flow is defined as Adjusted EBITDA less interest paid, current income tax expense, and capital expenditures plus net proceeds from the sale of fixed assets (selling price less gains or losses included in Adjusted EBITDA). As these performance measures do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"), they may not be comparable to similar measures presented by other companies. Please refer to Management's Discussion and Analysis for further details.
  2. This section contains forward-looking information within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" in Management's Discussion and Analysis for further details.

# Management's Discussion and Analysis

## INTRODUCTION

Acadian Timber Corp. ("Acadian" or the "Company") 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 761,000 acres of freehold timberlands in New Brunswick ("NB Timberlands"), approximately 299,000 acres of freehold timberlands in Maine ("Maine Timberlands") and provides management services relating to approximately 1.3 million acres of Crown licensed timberlands in New Brunswick. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass byproducts, sold to approximately 100 regional customers.

Acadian's business strategy is to maximize cash flows from its existing timberland assets while growing our business by acquiring assets on a value basis and utilizing our operations-oriented approach to drive improved performance.

### Basis of Presentation

This management's discussion and analysis ("MD&A") discusses the financial condition and results of operations of the Company for the three months ended March 25, 2017 (herein referred to as the "first quarter") relative to the three months ended March 26, 2016, and should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included at page 14 of this interim report.

Our first quarter financial results are determined in accordance with IAS 34 "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") and are expressed in Canadian dollars unless otherwise noted. External economic and industry factors remain unchanged since the previous annual report, unless otherwise noted. This MD&A has been prepared based on information available as at May 3, 2017. Additional information is available on Acadian's website at [www.acadiantimber.com](http://www.acadiantimber.com) and on SEDAR's website at [www.sedar.com](http://www.sedar.com).

### Non-IFRS Measures

Throughout the MD&A, reference is made to "Adjusted EBITDA", which Acadian's management defines as earnings before interest, taxes, fair value adjustments, recovery of or impairment of land and roads, unrealized exchange gain/loss on debt, depreciation and amortization and to "Adjusted EBITDA margin", which is Adjusted EBITDA as a percentage of its total revenue. Reference is also made to "Free Cash Flow", which Acadian's management defines as Adjusted EBITDA less interest paid, current income tax expense, and capital expenditures plus net proceeds from the sale of fixed assets (selling price less gains or losses included in Adjusted EBITDA). Management believes that Adjusted EBITDA, Adjusted EBITDA margin and Free Cash Flow are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of the Company's operating performance. As these measures do not have a standardized meaning prescribed by IFRS, they may not be comparable to similar measures presented by other companies. As a result, we have provided reconciliations of net income as determined in accordance with IFRS, to Adjusted EBITDA and Free Cash Flow in the "Adjusted EBITDA and Free Cash Flow" section of this MD&A.

### Assessment and Changes in Disclosure Controls and Internal Controls

Management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as at December 31, 2016. There have been no changes in our disclosure controls and procedures during the period ended March 25, 2017 that have materially affected, or are reasonably likely to materially affect, our disclosure controls and procedures.

Management has also evaluated the design and effectiveness of our internal controls over financial reporting in accordance with Multilateral Instrument 52-109 using the COSO framework 2013 as at December 31, 2016. There have been no changes in our internal controls over financial reporting during the period ended March 25, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## REVIEW OF OPERATIONS

### Summary of First Quarter Results

The table below summarizes operating and financial data for Acadian:

<i>(CAD thousands, except where indicated)</i>	<b>March 25, 2017</b>	March 26, 2016
Sales volume (000s m <sup>3</sup> )	<b>356.0</b>	301.6
Net sales	<b>\$ 23,072</b>	\$ 21,447
Net income	<b>4,758</b>	4,342
Adjusted EBITDA <sup>1</sup>	<b>\$ 8,030</b>	\$ 7,044
Free Cash Flow <sup>1</sup>	<b>\$ 7,388</b>	\$ 6,170
Dividends declared	<b>4,601</b>	4,183
Payout ratio	<b>62%</b>	68%
Per share – basic and diluted		
Net income	<b>\$ 0.28</b>	\$ 0.26
Free Cash Flow <sup>1</sup>	<b>0.44</b>	0.37
Dividends declared	<b>0.27</b>	0.25
Book Value	<b>16.01</b>	15.64
Common Shares Outstanding	<b>16,731,216</b>	16,731,216

1. Non-IFRS Measure. See “Reconciliation of net income, in accordance with IFRS, to Adjusted EBITDA and Free Cash Flow”.

For the first quarter, Acadian generated net sales of \$23.1 million compared to \$21.4 million in the comparable period of 2016, driven primarily by favourable winter harvest conditions, particularly for spruce and fir stands. Total sales volumes were 18% higher than the same period in the prior year, driven by a 34% increase in softwood sawlog sales volumes. Sales volumes for other non-biomass products were in-line with the same period in the prior year. The increase in sales volumes was partially offset by a 6% decrease in the weighted average log selling price due to a year-on-year decline in the U.S. dollar exchange rate, unfavorable mix and weaker pricing for hardwood products.

Adjusted EBITDA for the first quarter was \$8.0 million compared to \$7.0 million during the comparable period in 2016. Adjusted EBITDA margin for the quarter was 35%, up from 33% in the same period last year, as the decrease in average selling price was more than offset by operating leverage from higher sales volumes and the benefit of higher and better use (HBU) land sales in Maine.

Net income totaled \$4.8 million, or \$0.28 per share, for the first quarter, compared to \$4.3 million, or \$0.26 per share, for the same period in 2016. The increase is primarily due to the aforementioned sales volumes increase and partially offset by higher fair value adjustments due to higher harvest volumes.

The following table provides a reconciliation of net income, as determined in accordance with IFRS, to Adjusted EBITDA and Free Cash Flow during each respective period:

<i>(CAD thousands)</i>	<b>March 25, 2017</b>	March 26, 2016
Net income	<b>\$ 4,758</b>	\$ 4,342
Add / (deduct):		
Interest expense, net	<b>747</b>	730
Current income tax expense	<b>147</b>	155
Deferred income tax expense	<b>1,290</b>	5,040
Depreciation and amortization	<b>78</b>	125
Fair value adjustments	<b>1,475</b>	771
Unrealized exchange gain on long-term debt	<b>(465)</b>	(4,119)
Adjusted EBITDA <sup>1</sup>	<b>\$ 8,030</b>	\$ 7,044
Add / (deduct):		
Interest paid on debt, net	<b>(721)</b>	(704)
Additions to timber, land, roads and other fixed assets	<b>(114)</b>	(17)
Gain on sale of timberlands	<b>(497)</b>	(93)
Proceeds on sale of timberlands	<b>837</b>	95
Current income tax expense	<b>(147)</b>	(155)
Free Cash Flow <sup>1</sup>	<b>\$ 7,388</b>	\$ 6,170
Dividends declared	<b>\$ 4,601</b>	\$ 4,183
Payout ratio	<b>62%</b>	68%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

### **Dividend Policy of the Company**

Acadian declares dividends from its available cash to the extent determined prudent by the Board of Directors. These dividends represent cash received from Acadian's indirect interest in the Maine Timberlands and New Brunswick Timberlands, less estimated cash amounts required for expenses and other obligations of Acadian, cash redemptions of shares and any tax liability. Dividends are paid on or about the 15th day following each dividend declaration date.

Total dividends declared to shareholders during the three months ended March 25, 2017 were \$4.6 million, or \$0.275 per share, up from \$4.2 million or \$0.25 per share, in 2016. The payout ratio of Acadian, which represents the amount of dividends declared as a percentage of the Free Cash Flow generated, was 62% for the first quarter, below our long-term target of 95%.

### **Operating and Market Conditions**

Acadian's operations performed strongly during the first quarter, continuing to benefit from solid markets in New Brunswick. Excluding biomass, harvest volumes of 343 thousand m<sup>3</sup> for the quarter were up 9% year-over-year reflecting favourable winter harvest conditions, particularly for spruce and fir stands.

The selling prices for most of our products were slightly lower with Acadian's weighted average realized log selling price decreasing 6% compared to the prior year. Demand for softwood sawlogs in New Brunswick was strong with prices increasing 4% while prices for hardwood pulpwood declined 6% as a result of shorter hauling distances and a change in product mix. Similar to New Brunswick, softwood sawlog prices were 2% higher in Maine while prices for hardwood pulpwood declined 9% in U.S. dollar terms.

Strong local demand for biomass products resulted in a 20% increase in sales volumes compared to the same period in the prior year. Overall, Acadian's biomass gross margin decreased 41% compared to the first quarter of 2016, reflecting lower sales to export markets.

## Segmented Results of Operations

The table below summarizes operating and financial results for the New Brunswick and Maine Timberlands and Corporate:

<i>Three Months Ended March 25, 2017</i> <i>(CAD thousands)</i>	<b>NB Timberlands</b>	<b>Maine Timberlands</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales volumes (000s m <sup>3</sup> )	<b>266.5</b>	<b>89.5</b>	—	<b>356.0</b>
Net sales	<b>\$ 16,313</b>	<b>\$ 6,759</b>	\$ —	<b>\$ 23,072</b>
Adjusted EBITDA <sup>1</sup>	<b>\$ 6,128</b>	<b>\$ 2,156</b>	\$ (254)	<b>\$ 8,030</b>
Adjusted EBITDA margin <sup>1</sup>	<b>38%</b>	<b>32%</b>	n/a	<b>35%</b>

<i>Three Months Ended March 26, 2016</i> <i>(CAD thousands)</i>	<b>NB Timberlands</b>	<b>Maine Timberlands</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales volumes (000s m <sup>3</sup> )	203.8	97.8	—	301.6
Net sales	\$ 13,931	\$ 7,516	\$ —	\$ 21,447
Adjusted EBITDA <sup>1</sup>	\$ 4,958	\$ 2,281	\$ (195)	\$ 7,044
Adjusted EBITDA margin <sup>1</sup>	36%	30%	n/a	33%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

### *New Brunswick Timberlands*

New Brunswick Timberlands owns and manages approximately 761,000 acres of freehold timberlands, provides management services relating to approximately 1.3 million acres of Crown licensed timberlands and owns a forest nursery. Approximately 80% of harvest operations are performed by third-party contractors and approximately 20% by New Brunswick Timberlands employees.

The table below summarizes operating and financial results for New Brunswick Timberlands:

	<b>Three Months Ended March 25, 2017</b>				Three Months Ended March 26, 2016			
	<b>Harvest</b> <i>(000s m<sup>3</sup>)</i>	<b>Sales</b> <i>(000s m<sup>3</sup>)</i>	<b>Sales Mix</b>	<b>Results</b> <i>(\$000s)</i>	<b>Harvest</b> <i>(000s m<sup>3</sup>)</i>	<b>Sales</b> <i>(000s m<sup>3</sup>)</i>	<b>Sales Mix</b>	<b>Results</b> <i>(\$000s)</i>
Softwood	<b>135.3</b>	<b>126.5</b>	<b>47%</b>	<b>\$ 7,258</b>	111.0	80.5	40%	\$ 4,359
Hardwood	<b>115.3</b>	<b>94.7</b>	<b>36%</b>	<b>7,602</b>	109.6	90.0	44%	7,559
Biomass	<b>45.3</b>	<b>45.3</b>	<b>17%</b>	<b>965</b>	33.3	33.3	16%	1,338
	<b>295.9</b>	<b>266.5</b>	<b>100%</b>	<b>15,825</b>	253.9	203.8	100%	13,256
Other sales				<b>488</b>				675
Net sales				<b>\$ 16,313</b>				\$ 13,931
Adjusted EBITDA <sup>1</sup>				<b>\$ 6,128</b>				\$ 4,958
Adjusted EBITDA margin <sup>1</sup>				<b>38%</b>				36%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

### *Three months ended March 25, 2017:*

Net sales totaled \$16.3 million compared to \$13.9 million for the same period last year. Log sales volumes excluding biomass increased 30% to 221 thousand m<sup>3</sup> from 170 thousand m<sup>3</sup> in the prior year, reflecting more favourable harvest conditions for spruce and fir stands and strong demand for softwood sawlogs. Furthermore, in the prior year, sales volumes for the quarter were lower as our operations carried higher than typical inventories at quarter end due to an inventory management program with one of the operation's major customers that was not in place in the current year.

The weighted average log selling price for the quarter was \$67.18 per m<sup>3</sup>, down from \$69.87 per m<sup>3</sup> in the prior year. Strength in softwood sawlog selling prices, which were up 4% compared to the prior year, was more than offset by the impact of sales mix and weaker pricing for hardwood products.

Strong local demand for biomass products resulted in a 36% increase in sales volumes compared to the same period in the prior year. Overall, the gross margin earned on our biomass products decreased 36% compared to the first quarter of 2016, reflecting lower sales to export markets.

Adjusted EBITDA and costs for the quarter were \$6.1 million and \$10.2 million, respectively, compared to \$5.0 million and \$9.0 million, respectively, in the first quarter of 2016 due primarily to the aforementioned increase in log sales volumes. Adjusted EBITDA margin for the quarter increased to 38% from 36% in the same period in the prior year due to the increase in log sales as well as a 13% reduction in variable costs per m<sup>3</sup> due to shorter hauling distances.

### Safety

There were no recordable safety incidents among employees and one lost time incident among contractors during the first quarter of 2017.

### Maine Timberlands

Maine Timberlands owns and manages approximately 299,000 acres of freehold timberlands. All harvesting operations are performed by third-party contractors.

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

	Three Months Ended March 25, 2017				Three Months Ended March 26, 2016			
	Harvest (000s m <sup>3</sup> )	Sales (000s m <sup>3</sup> )	Sales Mix	Results (\$000s)	Harvest (000s m <sup>3</sup> )	Sales (000s m <sup>3</sup> )	Sales Mix	Results (\$000s)
Softwood	62.8	62.6	70%	\$ 4,751	65.2	64.9	66%	\$ 5,142
Hardwood	29.4	25.7	29%	1,892	29.8	27.4	28%	2,298
Biomass	1.2	1.2	1%	2	5.5	5.5	6%	37
	93.4	89.5	100%	6,645	100.5	97.8	100%	7,477
Other sales				114				39
Net sales				\$ 6,759				\$ 7,516
Adjusted EBITDA <sup>1</sup>				\$ 2,156				\$ 2,281
Adjusted EBITDA margin <sup>1</sup>				32%				30%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

### Three months ended March 25, 2017:

Net sales totaled \$6.8 million compared to \$7.5 million for the same period last year as log sales volumes decreased to 88 thousand m<sup>3</sup> from 92 thousand m<sup>3</sup> in the prior year. This decrease is primarily driven by a decrease in the number of operating days in the first quarter of 2017, as compared to the same quarter of 2016. Adjusting for this difference, log sales volumes were in-line with the prior year.

The weighted average log selling price in Canadian dollar terms was \$75.26 per m<sup>3</sup>, down from \$80.63 per m<sup>3</sup> in the same period of 2016. The weighted average log selling price in U.S. dollar terms was \$56.86 per m<sup>3</sup>, down 3% year-over-year reflecting a 2% increase in softwood sawlog pricing offset by a 9% decline in hardwood pulp pricing reflecting high customer inventories.

Adjusted EBITDA for the quarter was \$2.2 million, compared to \$2.3 million in the prior year. Costs for the first quarter were \$5.1 million, compared to \$5.3 million during the same period in 2016, due to the decrease in sales volumes and a 5% decrease in variable costs per m<sup>3</sup> in Canadian dollar terms. Adjusted EBITDA margin for the quarter increased to 32% from 30% due primarily to the benefit of HBU land sales and the above noted decrease in variable costs per m<sup>3</sup>.

### Safety

There were no recordable safety incidents among employees or contractors during the first quarter of 2017.

## Financial Position

Our financial position continues to be solid with \$100.5 million of net liquidity as at March 25, 2017, including funds available under Acadian's Revolving Facility and our stand-by equity commitment with Brookfield.

As at March 25, 2017, Acadian's balance sheet consisted of total assets of \$463.2 million (December 31, 2016 – \$454.6 million), represented primarily by timber, land, roads and other fixed assets of \$417.6 million (December 31, 2016 – \$419.7 million) with the balance in cash and current assets of \$39.5 million (December 31, 2016 – \$28.8 million), and intangible assets of \$6.1 million (December 31, 2016 – \$6.1 million). The balance sheet also reflects the acquisition of Katahdin Timberlands LLC on January 1, 2017 for \$1.3 million which was a related company owned by Brookfield, that leased and held parcels of land complementary to Acadian's Maine operation. Timber has been recorded at fair value as determined through independent third party appraisal at December 31, 2016 and adjusted for growth estimates and harvest during the first three months of the year. Reforestation costs have been expensed as incurred.

## MARKET OUTLOOK

*The following contains forward-looking statements about Acadian Timber Corp.'s market outlook for the remainder of 2017. Reference should be made to "Forward-Looking Statements" on page 13. For a description of material factors that could cause actual results to differ materially from the forward-looking statements in the following, please see the Risk Factors section of Acadian's most recent Annual Report and Annual Information Form available on our website at [www.acadiantimber.com](http://www.acadiantimber.com) or [www.sedar.com](http://www.sedar.com).*

Acadian's key markets include softwood sawtimber, hardwood sawtimber and hardwood pulpwood. Northeast North American softwood dimension sawmills represent over one third of Acadian's end-use market and are the primary market for our softwood sawtimber. Economic forecasters continue to call for steady growth in housing starts, with year-over-year improvements averaging over 7% in each of 2017 and 2018. As a result, North American sawtimber demand is expected to grow at over 3% per year over the next few years to support expanding domestic construction needs.

Despite the expectation for steadily improving lumber consumption, the near to medium term outlook for softwood sawtimber pricing remains uncertain in the face of expected punitive duties to be imposed by the U.S. Government on imports of Canadian softwood lumber. Preliminary countervailing duties (CVD) averaging 19.9% were announced last week, and anti-dumping duties (ADD) are scheduled to be announced in late June. Lumber prices jumped significantly through the first quarter in anticipation of high duty levels expected to be applied retroactively. As in past disputes, we have been anticipating relatively high initial combined duties, which are likely to be reduced over time during the litigation period. We anticipate a highly politicized process may obscure visibility on progress towards a negotiated settlement for at least most of 2017.

During past U.S./Canada softwood lumber disputes, Canada's Atlantic lumber producers, along with Québec border mills, experienced lower relative CVD & ADD duties than the rest of Canada and were ultimately exempted in past negotiated settlements due to the significantly greater proportion of private timberlands in the Atlantic region relative to the rest of Canada, as well as a long history of active cross-border log exports within the Northeast region. However, there is little current visibility as to where final duty determination will land for the region at the end of this year, and in fact whether the region will be exempted from any final settlement as in the past.

Hardwood sawtimber markets, typically oriented to millwork and higher value specialty markets, are expected to remain at healthy current levels throughout the upcoming year. While hardwood pulpwood markets remain historically very strong, we expect seasonally high consumer inventories will continue to impact pricing through mid-year, and in any case, remain vulnerable in the current strong U.S. dollar environment. While continued oversupply of softwood sawmill residuals and softwood pulpwood markets remains a concern, we anticipate regional timberland owners will continue to target reduced pulpwood harvest levels through 2017. Biomass is also an important market for Acadian. We anticipate domestic biomass markets will remain stable in New Brunswick and expect a gradual recovery in export volumes during the second half of the year. Maine's biomass market appears positioned for a gradual recovery as state subsidies and higher natural gas pricing have supported the restart of three previously idled biomass generation facilities. Additionally, we expect that the Maine recreational real estate market will remain favorable through the year and therefore anticipate conditions will support the



sale of additional properties throughout the remainder of 2017.

## SUPPLEMENTAL INFORMATION

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

### Selected Consolidated Quarterly Information

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

	2017	2016				2015		
<i>(CAD thousands, except per share data and where indicated)</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales volume (000s m <sup>3</sup> )	<b>356</b>	351	352	209	302	311	354	276
Net sales	<b>\$ 23,072</b>	\$ 22,723	\$ 19,342	\$ 13,656	\$ 21,447	\$ 21,735	\$ 22,632	\$ 15,368
Adjusted EBITDA <sup>1</sup>	<b>8,030</b>	7,049	5,153	3,301	7,044	7,412	6,465	3,794
Free Cash Flow <sup>1</sup>	<b>7,388</b>	6,276	4,195	2,743	6,170	6,388	5,245	2,833
Net income / (loss)	<b>4,758</b>	3,121	2,779	5,830	4,342	13,765	(2,851)	5,650
Per share – basic and diluted	<b>\$ 0.28</b>	\$ 0.18	\$ 0.17	\$ 0.35	\$ 0.26	\$ 0.82	\$ (0.17)	\$ 0.34

1. Non-IFRS Measure. See “Non-IFRS Measures” on page 3 of this interim report.

### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with IFRS 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. The critical estimates and judgements applied in preparing Acadian’s financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation rates and useful lives, determination of functional currency and the selection of accounting policies.

The critical estimates and judgements made in the preparation of Acadian’s financial statements include, among other things, future prices and margins, future sales volumes, future harvest rates and sustainable yields, and discount rates utilized in the valuation of Acadian’s timber, roads and land. In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgements in these consolidated financial statements. Actual results could differ from those estimates. For further reference on critical accounting policies, see our significant accounting policies contained in Note 2 of Acadian’s 2016 annual report.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Related Party Transactions

In the normal course of operations, the Company enters into various transactions on market terms with related parties which have been measured at the exchange value and recognized in the interim condensed consolidated financial statements. The Company has one significant related party, Brookfield Asset Management Inc., and its affiliates (collectively “Brookfield”). As at March 25, 2017, Brookfield owned 7,513,262 common shares, representing approximately 45% of the Company’s outstanding shares.

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

- a) Upon inception, 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 three months ended March 25, 2017 totaled \$0.6 million (2016 – \$0.6 million). As at March 25, 2017, fees of \$nil (2016 – \$0.2 million) remain outstanding.
- b) On January 1, 2017, Acadian acquired a 100% equity interest in Katahdin Timberlands LLC, a related company owned by Brookfield. Refer to Note 11 for further details.

Further to the related party transactions noted above, the total net receivables due from related parties as at March 25, 2017 is \$42 thousand (December 31, 2016 net receivable due from related parties – \$42 thousand) and net payables due to related parties is \$nil (December 31, 2016 net payable due to related parties is \$nil). Acadian also has a U.S. \$50 million stand-by-equity commitment with Brookfield.

### Contractual Obligations

The Company has no material capital or operating lease obligations, however, it has two significant contractual obligations related to the supply of fibre to Twin Rivers Paper Company (“Twin Rivers”) for periods up to 20 years and the provision of management services under a Crown License Agreement at the direction of Twin Rivers.

A summary of the Company’s debt obligations is as follows:

<i>(CAD thousands)</i>	Total Available	Total	Payments Due by Period			
			Less Than One Year (2017)	1 to 3 Years (2018-2020)	3 to 5 Years (2021-2023)	After 5 Years (>2023)
<b>Debt</b>						
Term facility <sup>1</sup>	\$ 96,998	\$ 96,998	\$ —	\$ 96,998	\$ —	\$ —
Revolving facility	13,379	—	—	—	—	—
	\$ 110,377	\$ 96,998	\$ —	\$ 96,998	\$ —	\$ —
Interest payments <sup>2</sup>		\$ 10,219	\$ 2,190	\$ 8,029	\$ —	\$ —

1. Represents principal of a U.S. dollar denominated term loan with a U.S. to Canadian dollar conversion of 1.3379, excluding the unamortized deferred financing costs.

2. Interest payments are determined assuming a fixed interest rate at 3.01% with a U.S. to Canadian dollar conversion of 1.3379.

## Additional Quarterly Information

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

### NB Timberlands

	2017 Q1			2016 Q4			2016 Q3			2016 Q2		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)
Softwood	135.3	126.5	\$ 7,258	117.6	113.5	\$ 6,189	97.4	99.2	\$ 5,258	35.4	65.5	\$ 3,588
Hardwood	115.3	94.7	7,602	115.4	104.7	8,251	98.5	91.2	6,663	49.5	76.6	6,475
Biomass	45.3	45.3	965	51.7	51.7	980	92.3	92.3	1,660	40.8	40.8	1,561
	295.9	266.5	15,825	284.7	269.9	15,420	288.2	282.7	13,581	125.7	182.9	11,624
Other sales			488			1,114			747			116
Net sales			\$ 16,313			\$ 16,534			\$ 14,328			\$ 11,740
Adjusted EBITDA <sup>1</sup>			\$ 6,128			\$ 5,867			\$ 4,608			\$ 3,887
Adjusted EBITDA margin <sup>1</sup>			38%			35%			32%			33%

### Maine Timberlands

	2017 Q1			2016 Q4			2016 Q3			2016 Q2		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)
Softwood	62.8	62.6	\$ 4,751	52.8	52.7	\$ 4,037	36.3	36.2	\$ 2,878	11.8	11.6	\$ 776
Hardwood	29.4	25.7	1,892	25.9	26.6	2,094	29.7	25.6	1,977	8.6	11.8	984
Biomass	1.2	1.2	2	2.0	2.0	4	7.2	7.2	23	2.6	2.6	16
	93.4	89.5	6,645	80.7	81.3	6,135	73.2	69.0	4,878	23.0	26.0	1,776
Other sales			114			54			136			140
Net sales			\$ 6,759			\$ 6,189			\$ 5,014			\$ 1,916
Adjusted EBITDA <sup>1</sup>			\$ 2,156			\$ 1,393			\$ 749			\$ (167)
Adjusted EBITDA margin <sup>1</sup>			32%			23%			15%			(9%)

### Corporate

	2017 Q1	2016 Q4	2016 Q3	2016 Q2
	Results (\$000s)	Results (\$000s)	Results (\$000s)	Results (\$000s)
Net sales	\$ —	\$ —	\$ —	\$ —
Adjusted EBITDA <sup>1</sup>	\$ (254)	\$ (211)	\$ (204)	\$ (419)

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

NB Timberlands

	2016 Q1			2015 Q4			2015 Q3			2015 Q2		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)
Softwood	111.0	80.5	\$ 4,359	89.4	90.0	\$ 5,252	104.8	105.8	\$ 5,910	66.0	103.3	\$ 5,713
Hardwood	109.6	90.0	7,559	88.0	91.0	7,189	120.2	112.1	8,249	86.0	92.3	6,544
Biomass	33.3	33.3	1,338	45.0	45.0	1,572	62.5	62.5	1,596	48.5	48.5	1,146
	253.9	203.8	13,256	222.4	226.0	14,013	287.5	280.4	15,755	200.5	244.1	13,403
Other sales			675			1,224			1,254			(288)
Net sales			\$ 13,931			\$ 15,237			\$ 17,009			\$ 13,115
Adjusted EBITDA <sup>1</sup>			\$ 4,958			\$ 5,540			\$ 5,951			\$ 3,472
Adjusted EBITDA margin <sup>1</sup>			36%			36%			35%			26%

Maine Timberlands

	2016 Q1			2015 Q4			2015 Q3			2015 Q2		
	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results	Harvest	Sales	Results
	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)	(000s m <sup>3</sup> )	(000s m <sup>3</sup> )	(\$000s)
Softwood	65.2	64.9	\$ 5,142	50.8	50.4	\$ 3,865	37.7	37.6	\$ 2,780	14.2	14.1	\$ 976
Hardwood	29.8	27.4	2,298	23.2	26.4	2,387	34.8	30.9	2,675	8.8	13.2	1,123
Biomass	5.5	5.5	37	8.6	8.6	59	5.3	5.3	35	4.5	4.5	33
	100.5	97.8	7,477	82.6	85.4	6,311	77.8	73.8	5,490	27.5	31.8	2,132
Other sales			39			187			133			121
Net sales			\$ 7,516			\$ 6,498			\$ 5,623			\$ 2,253
Adjusted EBITDA <sup>1</sup>			\$ 2,281			\$ 2,315			\$ 1,007			\$ 376
Adjusted EBITDA margin <sup>1</sup>			30%			36%			18%			17%

Corporate

	2016 Q1	2015 Q4	2015 Q3	2015 Q2
	Results (\$000s)	Results (\$000s)	Results (\$000s)	Results (\$000s)
Net sales	\$ —	\$ —	\$ —	\$ —
Adjusted EBITDA <sup>1</sup>	\$ (195)	\$ (443)	\$ (493)	\$ (54)

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this interim report.

## Forward-Looking Statements

*This management discussion and analysis (“MD&A”) contains forward-looking information within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Acadian Timber Corp. and its subsidiaries (collectively, “Acadian”), or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements may contain such words as “may,” “will,” “intend,” “should,” “expect,” “believe,” “outlook,” “predict,” “remain,” “anticipate,” “estimate,” “potential,” “continue,” “plan,” “could,” “might,” “project,” “targeting” or the negative of these terms or other similar terminology. Forward-looking information in this MD&A includes statements made in sections entitled “Dividend Policy of the Company,” “Liquidity and Capital Resources” and “Market Outlook” and without limitation other statements regarding management’s beliefs, intentions, results, performance, goals, achievements, future events, plans and objectives, business strategy, growth strategy and prospects, access to capital, liquidity and trading volumes, dividends, taxes, capital expenditures, projected costs, market trends and similar statements concerning anticipated future events, results, achievements, circumstances, performance or expectations that are not historical facts. These statements, which reflect management’s current expectations regarding future events and operating performance, are based on information currently available to management and speak only as of the date of this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; changes in Canadian income tax law; economic situation of key customers; Brookfield’s ability to source and secure potential investment opportunities; the availability of potential acquisitions that suit Acadian’s growth profile; and other risks and factors discussed under the heading “Risk Factors” in this Annual Report and in each of the Annual Information Form dated March 29, 2017 and the Management Information Circular dated March 29, 2017, and other filings of Acadian made with securities regulatory authorities, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: anticipated financial performance; anticipated market conditions; business prospects; the economic situation of key customers; strategies; regulatory developments; exchange rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the ability to obtain financing on acceptable terms. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A, and should not be relied upon as representing Acadian’s views as of any date subsequent to the date of this MD&A. Acadian assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as may be required by applicable law.*

# Interim Consolidated Statements of Net Income

(unaudited)

<i>Three Months Ended</i> <i>(CAD thousands, except per share data)</i>	Note	<b>March 25, 2017</b>	March 26, 2016
Net sales	6	<b>\$ 23,072</b>	\$ 21,447
Operating costs and expenses			
Cost of sales	6	<b>13,947</b>	13,086
Selling, administration and other	6	<b>1,592</b>	1,410
Depreciation and amortization		<b>78</b>	125
		<b>15,617</b>	14,621
Operating earnings		<b>7,455</b>	6,826
Interest expense, net		<b>(747)</b>	(730)
Other items			
Fair value adjustments		<b>(1,475)</b>	(771)
Unrealized exchange gain on long-term debt		<b>465</b>	4,119
Gain on sale of timberlands		<b>497</b>	93
Earnings before income taxes		<b>6,195</b>	9,537
Current income tax expense	7	<b>(147)</b>	(155)
Deferred income tax expense	7	<b>(1,290)</b>	(5,040)
Net income		<b>\$ 4,758</b>	\$ 4,342
Net income per share - basic and diluted		<b>\$ 0.28</b>	\$ 0.26

See accompanying notes to interim consolidated financial statements.

# Interim Consolidated Statements of Comprehensive Income

(unaudited)

<i>Three Months Ended</i> <i>(CAD thousands)</i>	<b>March 25, 2017</b>	March 26, 2016
Net income	<b>\$ 4,758</b>	\$ 4,342
Other comprehensive loss		
Item that may be reclassified subsequently to net income:		
Unrealized foreign currency translation loss	<b>(529)</b>	(5,564)
Comprehensive income / (loss)	<b>\$ 4,229</b>	\$ (1,222)

See accompanying notes to interim consolidated financial statements.

# Interim Consolidated Balance Sheets

(unaudited)

<i>As at</i> <i>(CAD thousands)</i>	Note	<b>March 25, 2017</b>	December 31, 2016
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 22,435	\$ 19,654
Accounts receivable and other assets	5	12,957	6,952
Inventory		4,067	2,149
		<b>39,459</b>	28,755
Timber	10	325,684	328,477
Land, roads and other fixed assets		91,944	91,206
Intangible assets		6,140	6,140
		<b>\$ 463,227</b>	<b>\$ 454,578</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 11,549	\$ 3,529
Dividends payable to shareholders	9	4,601	4,183
		<b>16,150</b>	7,712
Long-term debt	3	96,628	97,066
Deferred income tax liability		82,970	81,949
Shareholders' equity	4	267,479	267,851
		<b>\$ 463,227</b>	<b>\$ 454,578</b>

See accompanying notes to interim consolidated financial statements.



# Interim Consolidated Statements of Changes in Equity

(unaudited)

<i>Three Months Ended March 25, 2017</i> <i>(CAD thousands)</i>	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balance as at December 31, 2016	\$ 140,067	\$ 63,960	\$ 31,883	\$ 31,941	\$ 267,851
Changes in period					
Net income	—	4,758	—	—	4,758
Other comprehensive loss	—	—	—	(529)	(529)
Shareholders' dividends declared	—	(4,601)	—	—	(4,601)
Balance as at March 25, 2017	\$ 140,067	\$ 64,117	\$ 31,883	\$ 31,412	\$ 267,479

See accompanying notes to interim consolidated financial statements.

<i>Three Months Ended March 26, 2016</i> <i>(CAD thousands)</i>	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balance as at December 31, 2015	\$ 140,067	\$ 64,619	\$ 26,191	\$ 36,169	\$ 267,046
Changes in period					
Net income	—	4,342	—	—	4,342
Other comprehensive loss	—	—	—	(5,564)	(5,564)
Shareholders' dividends declared	—	(4,183)	—	—	(4,183)
Balance as at March 26, 2016	\$ 140,067	\$ 64,778	\$ 26,191	\$ 30,605	\$ 261,641

See accompanying notes to interim consolidated financial statements.

# Interim Consolidated Statements of Cash Flows

(unaudited)

<i>Three Months Ended (CAD thousands)</i>	<b>March 25, 2017</b>	March 26, 2016
Cash provided by (used for):		
<b>Operating activities</b>		
Net income	\$ 4,758	\$ 4,342
Adjustments to net income:		
Deferred income tax expense	1,290	5,040
Depreciation and amortization	78	125
Fair value adjustments	1,475	771
Unrealized exchange gain on long-term debt	(465)	(4,119)
Interest expense, net	747	730
Interest paid, net	(721)	(704)
Gain on sale of timberlands	(497)	(93)
Other, net	793	1,035
Net change in non-cash working capital balances	59	(250)
	<b>7,517</b>	<b>6,877</b>
<b>Financing activities</b>		
Dividends paid to shareholders	(4,183)	(4,183)
	<b>(4,183)</b>	<b>(4,183)</b>
<b>Investing activities</b>		
Additions to timber, land, roads and other fixed assets	(114)	(17)
Acquisition of Katahdin Timberlands LLC	(1,276)	—
Proceeds from sale of timberlands	837	95
	<b>(553)</b>	<b>78</b>
Increase in cash and cash equivalents during the period	<b>2,781</b>	2,772
Cash and cash equivalents, beginning of period	<b>19,654</b>	17,716
<b>Cash and cash equivalents, end of period</b>	<b>\$ 22,435</b>	<b>\$ 20,488</b>

See accompanying notes to interim consolidated financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

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

## NOTE 1. GENERAL

Acadian Timber Corp. (the “Company”) is governed by the *Canada Business Corporation Act* pursuant to articles of arrangement dated January 1, 2010. The Company is a reporting issuer and its common shares are publicly traded on the Toronto Stock Exchange under the stock symbol “ADN”. The principal and head office of the Company is located at Suite 1800, 1055 West Georgia Street, Vancouver, British Columbia, V6E 3R5.

The Company and all of its consolidated operations, collectively “Acadian”, own and manage approximately 761,000 acres of freehold timberlands in New Brunswick (“NB Timberlands”) and approximately 299,000 acres of freehold timberlands in Maine (“Maine Timberlands”) and provides management services relating to approximately 1.3 million acres of Crown-licensed timberlands in New Brunswick. 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 approximately 100 regional customers.

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

As at March 25, 2017, affiliates of Brookfield Asset Management Inc. (collectively “Brookfield”) own 7,513,262 common shares representing approximately 45% of the outstanding common shares of the Company. The ultimate parent of the Company is Brookfield Asset Management Inc.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies adopted and disclosed in Note 2 of Acadian's 2016 annual report. These interim condensed consolidated financial statements should be read in conjunction with Acadian's 2016 annual report.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of Acadian on May 3, 2017.

### Future Accounting Policies

#### ***IFRS 9, Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. This standard is not expected to have any impact on the interim condensed consolidated financial statements of the Company.

#### ***IFRS 15, Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date using the modified retrospective approach.

### IFRS 16, Leases

IFRS 16, which was issued in January 2016, will replace current lease accounting standards. It proposes to record all leases on the balance sheet with certain limited exceptions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Limited earlier adoption is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its interim condensed consolidated financial statements.

### NOTE 3. DEBT

Debt consists of the following:

<i>As at</i> <i>(CAD thousands)</i>	<b>March 25, 2017</b>	December 31, 2016
Term facility, due October 2020	\$ 96,998	\$ 97,462
Less: Deferred debt issuance costs	(370)	(396)
<b>Total</b>	<b>\$ 96,628</b>	<b>\$ 97,066</b>

Acadian has U.S. dollar denominated credit facilities with Metropolitan Life Insurance Company, which will mature on October 1, 2020. These credit facilities include a revolving credit facility of U.S.\$10.0 million (the "Revolving Facility") for general corporate purposes and a term credit facility of U.S.\$72.5 million (the "Term Facility"). The Term Facility bears interest at a fixed rate of 3.01%. The Revolving Facility bears interest at floating rates based on 90-day LIBOR plus applicable margin. Floating interest rates give rise to interest rate risk as earnings and cash flows may be negatively impaired by fluctuations in interest rates.

As at March 25, 2017 and December 31, 2016, Acadian had borrowed U.S.\$72.5 million under the Term Facility and nil under the Revolving Facility; however, U.S.\$1.6 million of the Revolving Facility is reserved to support the minimum cash balance requirement of the Term Facility. As security for these facilities, Acadian granted the lenders a security interest over all of its assets. The facilities are subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of a maximum loan-to-value ratio. Acadian is in compliance with all covenants as of March 25, 2017 and December 31, 2016.

The fair value of the Term Facility as at March 25, 2017 is \$97.5 million (December 31, 2016 – \$97.9 million). The fair value of debt is determined using the discounted cash flow approach and is measured under Level 2 of the fair value hierarchy. Future cash flows are estimated based on the terms under the Term Facility and discounted at a rate reflecting appropriate market fundamentals relating to the debt.

### NOTE 4. SHAREHOLDERS' EQUITY

Acadian is authorized to issue an unlimited number of common shares. The common shares have no stated par value. As of March 2, 2017, Acadian implemented a normal course issuer bid (NCIB) that permits the Company to acquire a block of shares if they become available. During the quarter, no purchases were made.

Common shares outstanding as at March 25, 2017 and December 31, 2016 were 16,731,216.

### NOTE 5. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company enters into various transactions on market terms with related parties, which have been measured at the exchange value and recognized in the interim condensed consolidated financial statements. Acadian has one significant related party, Brookfield. As at March 25, 2017, Brookfield owned 7,513,262 common shares, representing approximately 45% of the outstanding shares of the Company.

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

- Upon inception, 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 three months ended March 25, 2017 totaled \$0.6 million (2016 – \$0.6 million). As at March 25, 2017, fees of \$nil (2016 – \$0.2 million) remain outstanding.

b) On January 1, 2017, Acadian acquired a 100% equity interest in Katahdin Timberlands LLC, a related company owned by Brookfield. Refer to Note 11 for further details.

Further to the related party transactions noted above, the total net receivables due from related parties as at March 25, 2017 is \$42 thousand (December 31, 2016 net receivables due from related parties – \$42 thousand) and net payables due to related parties is nil (December 31, 2016 net payables due to related parties is nil). Acadian also has a U.S.\$50 million stand-by-equity commitment with Brookfield.

## NOTE 6. SEGMENTED INFORMATION

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

<i>Three Months Ended March 25, 2017 (CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	\$ 12,009	\$ 7,258	\$ 4,751	\$ —
Hardwood	9,494	7,602	1,892	—
Biomass	967	965	2	—
Other	602	488	114	—
Total net sales	23,072	16,313	6,759	—
Operating costs	(15,539)	(10,184)	(5,101)	(254)
Depreciation and amortization	(78)	(45)	(33)	—
Operating earnings / (loss)	7,455	6,084	1,625	(254)
Gain on sale of timberlands	497	—	497	—
Fair value adjustments	(1,475)	(916)	(559)	—
Earnings / (loss) before the undernoted	6,477	5,168	1,563	(254)
Unrealized exchange gain on long-term debt	465			
Interest expense, net	(747)			
Current income tax expense	(147)			
Deferred income tax expense	(1,290)			
Net income	\$ 4,758			

<i>As at March 25, 2017 (CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Timber, land, roads and other fixed assets and intangible assets	\$ 423,768	\$ 264,144	\$ 159,624	\$ —
Total assets	463,227	283,661	171,192	8,374
Total liabilities	\$ 195,748	\$ 10,241	\$ 36,057	\$ 149,450

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

<i>Three Months Ended March 26, 2016</i> <i>(CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	\$ 9,501	\$ 4,359	\$ 5,142	\$ —
Hardwood	9,857	7,559	2,298	—
Biomass	1,375	1,338	37	—
Other	714	675	39	—
Total net sales	21,447	13,931	7,516	—
Operating costs	(14,496)	(8,973)	(5,328)	(195)
Depreciation and amortization	(125)	(48)	(77)	—
Operating earnings / (loss)	6,826	4,910	2,111	(195)
Gain on sale of timberlands	93	—	93	—
Fair value adjustments	(771)	657	(1,428)	—
Earnings / (loss) before the undernoted	6,148	5,567	776	(195)
Unrealized exchange gain on long-term debt	4,119			
Interest expense, net	(730)			
Current income tax expense	(155)			
Deferred income tax expense	(5,040)			
Net income	\$ 4,342			

<i>As at March 26, 2016</i> <i>(CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Timber, land, roads and other fixed assets and intangible assets	\$ 413,124	\$ 246,048	\$ 167,076	\$ —
Total assets	445,651	260,350	175,230	10,071
Total liabilities	\$ 184,010	\$ 5,434	\$ 40,201	\$ 138,375

During the three months ended March 25, 2017 approximately 39% of total sales (2016 – 41%) were originated with customers domiciled in the U.S. and the balance in Canada. During the same period, approximately 39% of total sales (2016 – 44%) were denominated in U.S. dollars.

Acadian outsources much of its harvesting, transportation and other services which comprise the majority of Acadian's cost of sales. For the three months ended March 25, 2017, Acadian's top three suppliers accounted for approximately 22%, 20% and 12%, respectively, of Acadian's total harvesting and delivery costs (2016 – 25%, 24% and 10%, respectively).

Acadian sells its products to many forest product companies in North America. For the three months ended March 25, 2017, sales to the largest and next largest customer accounted for 17% and 12%, respectively (2016 – 14% and 12%, respectively).

**NOTE 7. INCOME TAXES**

The major components of income tax recognized in profit or loss are as follows:

<i>Three Months Ended (CAD thousands)</i>	<b>March 25, 2017</b>	March 26, 2016
Income tax expense		
Income tax at statutory rate	\$ 1,796	\$ 2,766
Foreign tax rate differential	173	85
Permanent differences	(511)	(1,063)
Rate adjustments	—	3,353
Benefit of previously unrecognized tax attributes	26	31
Other	(47)	23
<b>Total income tax expense</b>	<b>\$ 1,437</b>	<b>\$ 5,195</b>

**NOTE 8. EMPLOYEE BENEFIT PLANS**

NB Timberlands and Maine Timberlands each have defined contribution pension plans covering substantially all employees. During the three months ended March 25, 2017, contributions recorded as expenses amounted to \$63 thousand (2016 – \$64 thousand).

**NOTE 9. DIVIDENDS TO SHAREHOLDERS**

Acadian pays quarterly dividends to the extent determined prudent by the Board of Directors.

Total dividends declared for the three months ended March 25, 2017 were \$4.6 million (2016 – \$4.2 million) or \$0.275 per share (2016 – \$0.25 per share).

**NOTE 10. TIMBER**

<i>(CAD thousands)</i>	
Fair value at December 31, 2015	\$ 333,732
Gains arising from growth	29,419
Loss arising from harvest	(28,158)
Loss from fair value price changes	(2,261)
Foreign exchange	(4,255)
<b>Balance at December 31, 2016</b>	<b>\$ 328,477</b>
Gains arising from growth	6,640
Decrease arising from harvest	(8,935)
Foreign exchange	(498)
<b>Balance at March 25, 2017</b>	<b>\$ 325,684</b>

**NOTE 11. ACQUISITION OF KATAHDIN TIMBERLANDS LLC**

On January 1, 2017, Acadian acquired a 100% equity interest in Katahdin Timberlands LLC (“KTL”), a related company owned by Brookfield, that leased and held parcels of land complementary to Acadian’s Maine Timberlands for \$1,276 thousand (U.S.\$954 thousand). The parcels of land acquired were historically managed by Maine Timberlands on behalf of Brookfield. The acquisition represented an opportunity for Acadian to integrate the acquired parcels into its existing operations and increase income from higher and better use sales (HBU).



# Board and Management

# Corporate and Shareholder Information

## BOARD OF DIRECTORS

J. W. Bud Bird, O.C.  
*Chairman and  
Chief Executive Officer,  
Bird Holdings Ltd. and  
Bird Lands Limited*

Mark Bishop  
*President and  
Chief Executive Officer  
of Acadian and Managing  
Director of the Manager*

Phil Brown  
*Executive Managing  
Director of Partner  
Recruitment  
Momentum Search Group*

Reid Carter  
*Managing Partner  
Brookfield Asset  
Management Inc.*

David Mann, QC  
*Corporate Director*

Saul Shulman  
*Chief Executive Officer  
MLG Management Inc.*

Ben Vaughan  
*Senior Managing Partner  
Brookfield Asset  
Management Inc.*

## MANAGEMENT

Acadian Timber Corp.'s  
Manager:  
Brookfield Timberlands  
Management LP

Mark Bishop  
*President and  
Chief Executive Officer  
of Acadian and Managing  
Director of the Manager*

Wyatt Hartley  
*Chief Financial Officer  
of Acadian and Senior Vice  
President of the Manager*

Marcia McKeague  
*Vice President,  
Maine Woodland  
Operations*

Luc Ouellet  
*Vice President,  
NB Woodland Operations*

## HEAD OFFICE OF THE MANAGER

Brookfield Timberlands Management LP  
*(wholly-owned subsidiary of Brookfield Asset Management Inc.)*  
Suite 1800 – 1055 West Georgia Street, PO Box 11179, Royal Centre  
Vancouver, B.C. V6E 3R5  
Please direct your inquiries to:  
Jon Syrnyk  
*Investor Relations and Communications*  
t. 604.661.9622 f. 604.687.3419  
e. jsyrnyk@acadiantimber.com

## TRANSFER AGENT AND REGISTRAR

Shareholder inquiries relating to dividends, address changes and shareholder account information should be directed to the Company's transfer agent:

CST Trust Company  
P.O. Box 700 Postal Station B  
Montreal, QC H3B 3K3  
t. 1-800-387-0825 (toll free in North America)  
f. 1-888-249-6189  
e. inquiries@canstockta.com  
www.canstockta.com

## SHARE INFORMATION

Toronto Stock Exchange: ADN  
Fully Diluted Shares Outstanding (March 25, 2017): 16,731,216  
Targeted 2017 Quarterly Dividend: \$0.275 per share  
Record Date: Last business day of each quarter  
Payment Date: On or about the 15th day of each subsequent month

# www.acadiantimber.com

*This management discussion and analysis ("MD&A") contains forward-looking information within the meaning of applicable Canadian securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Acadian Timber Corp. and its subsidiaries (collectively, "Acadian"), or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information in this MD&A includes statements made in sections entitled "Dividend Policy of the Company," "Liquidity and Capital Resources" and "Market Outlook" and without limitation other statements regarding management's beliefs, intentions, results, performance, goals, achievements, future events, plans and objectives, business strategy, growth strategy and prospects, access to capital, liquidity and trading volumes, dividends, taxes, capital expenditures, projected costs, market trends and similar statements concerning anticipated future events, results, achievements, circumstances, performance or expectations that are not historical facts. These statements, which reflect management's current expectations regarding future events and operating performance, are based on information currently available to management and speak only as of the date of this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; changes in Canadian income tax law; economic situation of key customers; Brookfield's ability to source and secure potential investment opportunities; the availability of potential acquisitions that suit Acadian's growth profile; and other risks and factors discussed under the heading "Risk Factors" in this Annual Report and in each of the Annual Information Form dated March 29, 2017 and the Management Information Circular dated March 29, 2017, and other filings of Acadian made with securities regulatory authorities, which are available on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: anticipated financial performance; anticipated market conditions; business prospects; the economic situation of key customers; strategies; regulatory developments; exchange rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the ability to obtain financing on acceptable terms. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A, and should not be relied upon as representing Acadian's views as of any date subsequent to the date of this MD&A. Acadian assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as may be required by applicable law.*



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