

Q2 2020 Interim Report

Letter to Shareholders

Overview

Acadian Timber Corp.'s ("Acadian") operations were impacted by challenging operating conditions during the three-month period ended June 27, 2020 (the "second quarter"). While the second quarter of the year is traditionally our weakest due to seasonal operating conditions, operating activity was impacted by an earlier end to winter operations this year compared to 2019, followed by highly unusual dry and hot weather that led to extreme fire risk and operating restrictions later in the quarter. All told, Acadian operated four fewer weeks in the second quarter of 2020 compared to the same period last year, leading to 33% lower sales volumes, excluding biomass.

The circumstances surrounding the COVID-19 pandemic caused a minor delay in timber services activity as one contractor temporarily faced border crossing restrictions. The pandemic also resulted in slowed wood deliveries in the early part of the second quarter as customers worked through elevated inventory levels from the winter harvest season while assessing the market outlook for their products. With the resilience of their end-use markets now proven, our customers are cautiously optimistic about the remainder of the year, and they are taking deliveries of our products.

Acadian generated \$0.2 million of negative Free Cash Flow and declared dividends of \$4.8 million to our shareholders during the second quarter. Free Cash Flow was impacted by the early end to winter operations, operating restrictions due to highly unusual dry and hot weather at the end of the quarter, and a one-time tax expense related to new tax legislation of \$0.7 million in the quarter. Our balance sheet continues to be solid with \$23.0 million of net liquidity as at June 27, 2020, which includes funds available under our Credit Facilities.

Results of Operations

We are pleased to report that Acadian's operations reported no recordable safety incidents during the quarter amongst employees and contractors and none of our people have contracted the virus as of the date of this letter. We have implemented a comprehensive COVID-19 operating plan for field and office activities in an effort to protect the health of our people.

During the second quarter, Acadian generated sales of \$11.5 million, compared to \$17.9 million in the prior year period. Challenging operating conditions during the quarter, as discussed above, resulted in a 33% decrease in log sales volumes, excluding biomass, while the weighted average selling price, excluding biomass, was relatively stable with a 1% decrease year-over-year.

Acadian generated Adjusted EBITDA² of \$1.4 million during the second quarter, down from \$3.0 million in the prior year period, and Adjusted EBITDA margin² for the quarter, at 12%, was down from 17% in the prior year period due to lower log sales volumes and no gain from timberland sales in the second quarter, compared to \$0.5 million gain from timberland sales in the prior year period. Excluding timberland sales, Adjusted EBITDA margin was 14% in the second quarter of 2019.

Acadian recorded net income for the second quarter of \$5.2 million, or \$0.31 per share, compared to net income of \$5.8 million, or \$0.35 per share in the same period of 2019. The variance from the prior year period is primarily due to higher gains on non-cash items such as unrealized foreign exchange on long-term debt and fair value adjustments compared to the prior year period and a one-time income tax expense related to new tax legislation.

Outlook¹

The North American economic outlook continues to be highly uncertain, but end-use markets for our key products have proven to be relatively resilient.

Softwood lumber demand for home improvements, as people spend more time at home, as well as new home sales activity, reflecting underlying trends in the housing market, remains steady. The consensus forecast is for 1.2 million U.S. housing starts in 2020 and then a return to 1.3 million starts in 2021. Demand for specialty paper products, such as food packaging and labels, is expected to remain stable for the duration of 2020.

Regionally, and based on what we know today, we expect steady demand for our products in New Brunswick, with some weakness in Maine, as mills continue to work through higher than usual winter inventories. The softwood sawtimber market is expected to remain stable with customers having a cautiously optimistic view based on current end-use market strength, offset by concerns about the uncertain North American economic outlook for the remainder of the year. Hardwood sawtimber markets are relatively weak due to soft demand for high-end, appearance grade lumber, compared to relatively robust demand for low-end, industrial grade products. Pulpwood markets are expected to strengthen as winter inventories are depleted, particularly in Maine. A bright spot, albeit a small contributor to EBITDA, is biomass sales in New Brunswick, which are benefiting from strong demand from both domestic and offshore customers.

Closing Remarks

While we have a good understanding of the demand presented by our customers for our products and we are well positioned to operate on plan for the remainder of the year with contractor capacity in place, we are prepared to adjust our operations to respond to changing market conditions. Among other priorities, we are focused on inventory management and cost containment to mitigate the impact of possible future market disruptions.

On behalf of the board and management of Acadian, I would like to thank all our shareholders for their ongoing support.



Erika Reilly

President and Chief Executive Officer

July 29, 2020

1. This Letter to Shareholders 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 "Cautionary Statement Regarding Forward-Looking Information and Statements" in Management's Discussion and Analysis for further details.
2. Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow and Payout Ratio are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of Acadian's operating performance. 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 the section headed Non-IFRS Measures in the Management's Discussion and Analysis for further details.

Management's Discussion and Analysis

INTRODUCTION

Acadian Timber Corp. ("Acadian", the "Company" or "we") is a leading supplier of primary forest products in Eastern Canada and the Northeastern U.S. With a total of approximately 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 ("New Brunswick Timberlands" or "NB Timberlands"), approximately 300,000 acres of freehold timberlands in Maine ("Maine Timberlands") and provides timber services relating to approximately 1.3 million acres of Crown licensed timberlands in New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to approximately 85 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 June 27, 2020 (herein referred to as the "second quarter") and the six-month period ended June 27, 2020 compared to the three and six-month periods ended June 29, 2019, and should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the second quarter and year-to-date ended June 27, 2020 and the audited annual consolidated statements and the related MD&A for the fiscal year ended December 31, 2019.

Our second 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 July 29, 2020. Additional information is available on Acadian's website at www.acadiantimber.com and on SEDAR at 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, realized gain/loss on sale of roads and other fixed assets, 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) and to "Payout Ratio" which Acadian's management defines as dividends declared divided by Free Cash Flow. Management believes that Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow, and Payout Ratio are key performance measures in evaluating Acadian's operations and are important in enhancing investors' understanding of the Company's operating performance. Adjusted EBITDA and Adjusted EBITDA margin are used to evaluate operational performance. Free Cash Flow is used to evaluate Acadian's ability to generate sustainable cash flows from our operations while Payout Ratio is used to evaluate Acadian's ability to fund its distribution using Free Cash Flow. 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 (loss) 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, 2019. There have been no changes in our disclosure controls and procedures during the six-month period ended June 27, 2020 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, 2019. There have been no changes in our internal controls over financial reporting during the six-month period ended June 27, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

REVIEW OF OPERATIONS

Summary of Second Quarter Results

The table below summarizes operating and financial data for Acadian:

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Sales volume (000s m ³)	139.7	214.0	514.6	598.2
Sales	\$ 11,458	\$ 17,918	\$ 42,866	\$ 48,856
Operating earnings	1,283	2,473	9,546	11,219
Net income	5,229	5,784	1,518	11,966
Adjusted EBITDA ¹	1,354	3,038	9,683	11,895
Adjusted EBITDA margin ¹	12%	17%	23%	24%
Free Cash Flow ¹	(208)	2,750	6,357	9,240
Dividends declared	4,839	4,839	9,678	9,679
Payout Ratio ^{1,2}	n/a	176%	152%	105%
Per share – basic and diluted				
Net income	\$ 0.31	\$ 0.35	\$ 0.09	\$ 0.72
Free Cash Flow ¹	(0.01)	0.16	0.38	0.55
Dividends declared	0.29	0.29	0.58	0.58
Book value	17.14	17.18	17.14	17.18
Common shares outstanding	16,686,916	16,686,916	16,686,916	16,686,916
Weighted average shares outstanding	16,686,916	16,686,916	16,686,916	16,686,933

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

2. Seasonal fluctuations in volume render second quarter Payout Ratios not meaningful.

3. As at July 29, 2020 there were 16,686,916 common shares outstanding.

While the second quarter of the year is traditionally our weakest, due to seasonal operating conditions, operating activity was impacted by an earlier end to winter operations this year compared to 2019, followed by highly unusually dry and hot weather that led to extreme fire risk and operating restrictions later in the quarter. All told, Acadian operated four fewer weeks in the second quarter of 2020 compared to the same period last year.

For the three months ended June 27, 2020, Acadian generated sales of \$11.5 million, compared to \$17.9 million in the prior year period. Challenging operating conditions, as described above, resulted in a 33% decrease in sales volume, excluding biomass in the current period compared to the same period in 2019. The weighted average log selling price, excluding biomass, was relatively stable with a 1% decrease year-over-year.

Operating costs and expenses were \$10.2 million during the second quarter, compared to \$15.4 million during the prior year period, reflecting the lower harvest volumes. Variable log harvest costs per m³, excluding biomass, decreased 1% as a result of lower log processing costs than in the prior year period.

Adjusted EBITDA was \$1.4 million during the second quarter compared to \$3.0 million in the prior year period while Adjusted EBITDA margin for the quarter was 12%, compared to 17% in the prior year period. The decrease in Adjusted EBITDA margin is largely due to a \$0.5 million gain recorded on timberland sales in the second quarter of the prior year, whereas there were no timberland sales during the second quarter of 2020. Excluding the impact of the sale of these timberlands in 2019, the comparable Adjusted EBITDA margin would have been 14% in the prior year period.

Net income for the second quarter totaled \$5.2 million, or \$0.31 per share, compared to net income of \$5.8 million, or \$0.35 per share in the same period of 2019. The variance from the prior year period is primarily due to higher gains on non-cash items such as unrealized foreign exchange on long-term debt and fair value adjustments compared to the prior year period and a one-time income tax expense of \$0.7 million related to new tax legislation as disclosed last quarter.

During the first half of 2020, Acadian generated sales of \$42.9 million compared to \$48.9 million in the prior year period. The 12% decrease was largely a result of challenging operating conditions during the second quarter of 2020 that led to a 13% decrease in sales volumes, excluding biomass, year-to-date. The weighted average selling price, excluding biomass, remained relatively stable year-over-year. Operating costs and expenses of \$33.3 million were \$4.3 million lower than the prior year period due to lower harvest volumes. Lower volumes and no gains from timberland sales in 2020 resulted in Adjusted EBITDA of \$9.7 million compared to \$11.9 million during the first half of 2019. Adjusted EBITDA margin remained relatively stable year-over-year.

For the six months ended June 27, 2020, net income was \$1.5 million, or \$0.09 per share, which represents a decrease of \$10.4 million as a result of a non-cash unrealized foreign exchange loss on long term debt of \$5.2 million this year compared to a gain of \$3.9 million in 2019 and the one-time income tax expense noted above.

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>	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net income	\$ 5,229	\$ 5,784	\$ 1,518	\$ 11,966
Add / (deduct)				
Interest expense, net	1,172	970	2,463	1,979
Current income tax (recovery) / expense	656	(368)	1,558	1,332
Deferred income tax expense	1,493	1,595	2,045	1,681
Depreciation and amortization	71	72	137	144
Fair value adjustments and other	(4,237)	(3,112)	(3,218)	(1,270)
Unrealized exchange (gain) / loss on long-term debt	(3,030)	(1,903)	5,180	(3,937)
Adjusted EBITDA ¹	\$ 1,354	\$ 3,038	\$ 9,683	\$ 11,895
Add / (deduct)				
Interest paid on debt, net	(819)	(673)	(1,673)	(1,341)
Additions to timber, land, roads and other fixed assets	(87)	(18)	(95)	(18)
(Gain) / loss on sale of timberlands	-	(492)	-	(531)
(Gain) / loss on disposal of other fixed assets	-	(1)	-	(1)
Proceeds on sale of timberlands	-	527	-	567
Proceeds on sale of other fixed assets	-	1	-	1
Current income tax (expense) / recovery	(656)	368	(1,558)	(1,332)
Free Cash Flow ¹	\$ (208)	\$ 2,750	\$ 6,357	\$ 9,240
Dividends declared	\$ 4,839	\$ 4,839	\$ 9,678	\$ 9,679
Payout Ratio ^{1,2}	n/a	176%	152%	105%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 1 of this MD&A.

2. Seasonal fluctuations in volume render second quarter Payout Ratios not meaningful.

Dividend Policy of the Company

Acadian declares dividends from its available cash to the extent determined prudent by the Board of Directors. Dividends are paid on or about the 15th day following each dividend declaration date.

For the three-month period ended June 27, 2020, the Board of Directors declared dividends of \$4.8 million, or \$0.29 per share, consistent with the same period of 2019. The Payout Ratio for the second quarter is not considered meaningful given the traditionally low level of activity during the quarter.

For the six-month period ended June 27, 2020, the Board of Directors declared dividends of \$9.7 million or \$0.58 per share, consistent with the same period of 2019. This represents a Payout Ratio of 152%, which is in line with expectations given the seasonality of our operations and the one-time income tax expense in the quarter. We anticipate that over the long-term we will revert to a Payout Ratio consistent with our target level.

Operating and Market Conditions

Acadian's operations were impacted by challenging operating conditions during the second quarter which resulted in four fewer operating weeks compared to the prior year period. Acadian's sales volume, excluding biomass, of 122,000 m³ was down 33% year-over-year.

The weighted average selling price, excluding biomass, for the second quarter decreased 1% compared to the prior year period. Softwood and hardwood sawlogs prices were in line with the prior year period, and hardwood pulpwood price increased 2%. Softwood pulpwood demand was weak in Maine due to high inventory levels at mills that accumulated over the winter causing an overall price decrease of 7% year-over-year. Biomass margins improved relative to the same period in 2019 benefitting from lower average hauling distances compared to last year.

Segmented Results of Operations

The tables below summarize operating and financial results for the NB and Maine Timberlands and Corporate:

<i>Three Months Ended June 27, 2020</i>						
<i>(CAD thousands)</i>	NB Timberlands		Maine Timberlands		Corporate	Consolidated
Sales volumes (000s m ³)		119.6		20.1	—	139.7
Sales	\$	9,482	\$	1,976	\$ —	11,458
Adjusted EBITDA ¹	\$	1,781	\$	117	\$ (544)	1,354
Adjusted EBITDA margin ¹		19%		6%	n/a	12%

<i>Three Months Ended June 29, 2019</i>						
<i>(CAD thousands)</i>	NB Timberlands		Maine Timberlands		Corporate	Consolidated
Sales volumes (000s m ³)		170.0		44.0	—	214.0
Sales	\$	14,449	\$	3,469	\$ —	17,918
Adjusted EBITDA ¹	\$	2,837	\$	540	\$ (339)	3,038
Adjusted EBITDA margin ¹		20%		16%	n/a	17%

<i>Six Months Ended June 27, 2020</i>						
<i>(CAD thousands)</i>						
	NB Timberlands		Maine Timberlands		Corporate	Consolidated
Sales volumes (000s m ³)	373.8		140.8		—	514.6
Sales	\$	31,179	\$	11,687	\$	42,866
Adjusted EBITDA ¹	\$	7,660	\$	3,166	\$	9,683
Adjusted EBITDA margin ¹		25%		27%	n/a	23%

<i>Six Months Ended June 29, 2019</i>						
<i>(CAD thousands)</i>						
	NB Timberlands		Maine Timberlands		Corporate	Consolidated
Sales volumes (000s m ³)	437.6		160.6		—	598.2
Sales	\$	35,898	\$	12,958	\$	48,856
Adjusted EBITDA ¹	\$	8,599	\$	3,883	\$	11,895
Adjusted EBITDA margin ¹		24%		30%	n/a	24%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this MD&A.

New Brunswick Timberlands

New Brunswick Timberlands owns and manages approximately 761,000 acres of freehold timberlands and provides harvesting and management services to third parties relating to approximately 1.3 million acres of Crown licensed timberlands. Approximately 90% of harvest operations are currently performed by third-party contractors and approximately 10% by New Brunswick Timberlands employees.

There were no recordable safety incidents amongst employees or contractors during the second quarter of 2020.

The tables below summarize operating and financial results for New Brunswick Timberlands:

	Three Months Ended June 27, 2020				Three Months Ended June 29, 2019			
	Harvest (000s m³)	Sales (000s m³)	Sales Mix	Results (\$000s)	Harvest (000s m³)	Sales (000s m³)	Sales Mix	Results (\$000s)
Softwood	42.3	48.3	40%	\$ 2,506	47.0	61.7	36%	\$ 3,621
Hardwood	32.0	53.6	45%	4,248	51.5	77.6	46%	6,071
Biomass	17.7	17.7	15%	631	30.7	30.7	18%	1,237
	92.0	119.6	100%	7,385	129.2	170.0	100%	10,929
Timber services and other				2,097				3,520
Sales				\$ 9,482				\$ 14,449
Adjusted EBITDA ¹				\$ 1,781				\$ 2,837
Adjusted EBITDA margin ¹				19%				20%

	Six Months Ended June 27, 2020				Six Months Ended June 29, 2019			
	Harvest (000s m³)	Sales (000s m³)	Sales Mix	Results (\$000s)	Harvest (000s m³)	Sales (000s m³)	Sales Mix	Results (\$000s)
Softwood	158.8	161.7	43%	\$ 9,138	187.7	200.6	46%	\$ 11,953
Hardwood	135.8	149.6	40%	12,013	155.2	162.9	37%	12,661
Biomass	62.5	62.5	17%	2,124	74.1	74.1	17%	2,736
	357.1	373.8	100%	23,275	417.0	437.6	100%	27,350
Timber services and other				7,904				8,548
Sales				\$ 31,179				\$ 35,898
Adjusted EBITDA ¹				\$ 7,660				\$ 8,599
Adjusted EBITDA margin ¹				25%				24%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this MD&A.

Sales for our New Brunswick Timberlands were \$9.5 million compared to \$14.4 million during the prior year period. The sales volume, excluding biomass, decreased by 27% primarily due to challenging operating conditions during the second quarter. The weighted average selling price, excluding biomass, for the second quarter was \$66.26 per m³, or 5% lower than the prior year period price of \$69.57 per m³, as softwood sawlog pricing was impacted by customer mix and a lower grade of logs being sold compared to the prior year.

Operating costs were \$7.7 million during the second quarter, compared to \$11.8 million in the prior year period, primarily due to lower harvesting and hauling activity. Adverse conditions in the period, resulted in fewer operating weeks than in the prior year period. Weighted average variable costs, excluding biomass, decreased by 6% as a result of lower log processing costs compared to the prior year period.

Adjusted EBITDA was \$1.8 million during the second quarter of 2020 compared to \$2.8 million in the prior year period due to lower sales volumes and \$0.3 million from gains on the sale of timberlands in the prior year period. Adjusted EBITDA margin decreased to 19% from 20% in the prior year period.

During the first half of 2020, New Brunswick Timberlands' sales of \$31.2 million fell 13% compared to the prior year period. The weighted average selling price, excluding biomass, remained stable, however the sales volume, excluding biomass, decreased 14% year-over-year. Sales were largely in line with the prior year period in the first quarter, however challenging operating conditions during the second quarter resulted in a decrease for the first half of the year. Costs of \$23.6 million during the first half of 2020 were \$4.0 million lower than the prior year period due to lower harvesting and hauling activity. As a result of the lower sales volume and no land sales, Adjusted EBITDA fell to \$7.7 million from \$8.6 million during the first half of 2019, however Adjusted EBITDA margin improved to 25% from 24%.

Maine Timberlands

Maine Timberlands owns and manages approximately 300,000 acres of freehold timberlands. All harvesting operations are performed by third-party contractors.

There were no recordable safety incidents amongst employees or contractors during the second quarter of 2020.

The tables below summarize operating and financial results for Maine Timberlands:

	Three Months Ended June 27, 2020				Three Months Ended June 29, 2019			
	Harvest (000s m ³)	Sales (000s m ³)	Sales Mix	Results (\$000s)	Harvest (000s m ³)	Sales (000s m ³)	Sales Mix	Results (\$000s)
Softwood	10.4	10.2	51%	\$ 810	26.9	28.0	64%	\$ 1,884
Hardwood	7.3	9.8	49%	1,025	12.6	15.9	36%	1,449
Biomass	0.1	0.1	0%	—	0.1	0.1	0%	3
	17.8	20.1	100%	1,835	39.6	44.0	100%	3,336
Other Sales				141				133
Sales			\$	1,976			\$	3,469
Adjusted EBITDA ¹			\$	117			\$	540
Adjusted EBITDA margin ¹				6%				16%

	Six Months Ended June 27, 2020				Six Months Ended June 29, 2019			
	Harvest (000s m ³)	Sales (000s m ³)	Sales Mix	Results (\$000s)	Harvest (000s m ³)	Sales (000s m ³)	Sales Mix	Results (\$000s)
Softwood	102.4	102.4	73%	\$ 8,065	114.1	114.3	71%	\$ 8,920
Hardwood	37.7	38.2	27%	3,360	42.6	42.8	27%	3,730
Biomass	0.2	0.2	0%	2	3.5	3.5	2%	8
	140.3	140.8	100%	11,427	160.2	160.6	100%	12,658
Other Sales				260				300
Sales				\$ 11,687				\$ 12,958
Adjusted EBITDA ¹				\$ 3,166				\$ 3,883
Adjusted EBITDA margin ¹				27%				30%

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this MD&A.

Sales for our Maine Timberlands totaled \$2.0 million compared to \$3.5 million for the same period last year. Sales volumes, excluding biomass, decreased by 54% as customers were slow to take deliveries having accumulated significant inventories over an active winter harvest season. Furthermore, pulpwood markets were disrupted by reduced demand from the Androscoggin Mill in Jay, Maine due to the explosion of two of their digesters that occurred in April 2020.

The weighted average selling price, excluding biomass, in Canadian dollar terms was \$91.45 per m³, up from \$76.00 per m³ in the same period of 2019. In U.S. dollar terms, the weighted average selling price, excluding biomass, was \$65.16 per m³, an increase of 15% year-over-year. The improvement in the weighted average selling price, excluding biomass, was driven by a higher value product distribution with less softwood pulpwood in the mix.

Operating costs for the second quarter were \$1.9 million, compared to \$3.2 million during the same period of 2019 mainly due to lower harvesting and hauling activity. Variable harvest costs per m³, excluding biomass, were higher than in the prior year period due to longer haul distances combined with slightly higher harvesting costs.

Adjusted EBITDA for the quarter was \$0.1 million compared to \$0.5 million during the prior year period and Adjusted EBITDA margin was 6% compared to 16% in the prior year period. The prior year period included \$0.2 million of gains recorded on timberland sales, whereas there were no timberland sales during the second quarter of 2020. Excluding the impact of the sale of these timberlands in 2019, Adjusted EBITDA margin would have been 8% in the prior year period.

During the first half of 2020, Maine Timberlands' sales were \$11.7 million compared to \$13.0 million in the prior year period. Maine Timberlands' weighted average selling price, excluding biomass, increased 1%, however the sales volume, excluding biomass, decreased 10% year-over-year reflecting the challenges in the second quarter discussed above. Operating costs of \$8.5 million during the first half of 2020 were \$0.8 million lower than the prior year period due to lower harvesting and hauling activity during the second quarter. As a result of the lower sales volume and no land sales, Adjusted EBITDA fell to \$3.2 million compared to \$3.9 million during the first half of 2019 while Adjusted EBITDA margin slipped to 27% from 30% in 2019.

Financial Position

Our net liquidity was \$23.0 million as at June 27, 2020, including funds available under the revolving facility.

As at June 27, 2020, Acadian's balance sheet consisted of total assets of \$505.5 million (December 31, 2019 – \$498.7 million), represented primarily by timber, land, roads and other fixed assets of \$482.1 million (December 31, 2019 – \$469.6 million), with the balance in cash and current assets of \$17.3 million (December 31, 2019 – \$23.0 million), and intangible assets of \$6.1 million (December 31, 2019 – \$6.1 million). Timber has been recorded at fair value as determined through an independent third-party appraisal at December 31, 2019 and adjusted for growth estimates and harvest during the first six 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 2020. Reference should be made to "Forward-Looking Statements" section below. 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 or www.sedar.com.

The North American economic outlook continues to be highly uncertain, but end-use markets for our key products have proven to be relatively resilient.

Softwood lumber demand for home improvements, as people spend more time at home, as well as new home sales activity, reflecting underlying trends in the housing market, remains steady. The consensus forecast is for 1.2 million U.S. housing starts in 2020 and then a return to 1.3 million starts in 2021. Demand for specialty paper products, such as food packaging and labels, is expected to remain stable for the duration of 2020.

Regionally, and based on what we know today, we expect steady demand for our products in New Brunswick, with some weakness in Maine, as mills continue to work through higher than usual winter inventories. The softwood sawtimber market is expected to remain stable with customers having a cautiously optimistic view based on current end-use market strength, offset by concerns about the uncertain North American economic outlook for the remainder of the year. Hardwood sawtimber markets are relatively weak due to soft demand for high-end, appearance grade lumber, compared to relatively robust demand for low-end, industrial grade products. Pulpwood markets are expected to strengthen as winter inventories are depleted, particularly in Maine. A bright spot, albeit a small contributor to EBITDA, is biomass sales in New Brunswick, which are benefiting from strong demand from both domestic and offshore customers.

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 seven quarters. See "Additional Quarterly Information" section for the segmented quarterly results.

	2020		2019				2018	
<i>(CAD thousands, except per share data and where indicated)</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales volume (000s m ³)	139.7	374.9	339.4	313.5	214.0	384.2	323.7	332.0
Sales	\$ 11,458	\$ 31,408	\$ 25,835	\$ 25,357	\$ 17,918	\$ 30,938	\$ 24,167	\$ 26,634
Adjusted EBITDA ¹	1,354	8,329	6,586	5,123	3,038	8,857	4,631	6,059
Free Cash Flow ¹	(208)	6,565	5,296	4,186	2,750	6,490	3,525	5,133
Net income (loss)	5,229	(3,711)	16,228	(10,869)	5,784	6,182	16,441	5,946
Per share – basic and diluted	\$ 0.31	\$ (0.22)	\$ 0.97	\$ (0.65)	\$ 0.35	\$ 0.37	\$ 0.98	\$ 0.36

1. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this MD&A.

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 consolidated 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 consolidated 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 2019 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 had previously entered into various transactions on market terms with related parties, which had been measured at exchange value and recognized in the consolidated financial statements. The Company's one significant related party prior to August 20, 2019 was Brookfield Asset Management Inc. and its affiliates (collectively "Brookfield"). Prior to August 20, 2019, Brookfield owned 7,513,262 common shares of the Company representing 45% of the Company's outstanding shares. The common shares previously owned by Brookfield were sold to Macer Forest Holdings Inc. ("Macer") on August 20, 2019, resulting in Macer becoming a related party. There were no related party transactions with Macer during the six-month period ended June 27, 2020.

As at June 27, 2020, Macer owned 7,513,262 common shares, representing approximately 45% of the Company's outstanding shares.

Upon inception, Acadian entered into an agreement with Brookfield whereby Brookfield provided a number of asset management and administrative services functions to Acadian. The agreement with Brookfield was terminated by Acadian on September 9, 2019. Fees for services provided under this agreement for the six months ended June 29, 2019 totaled \$1.2 million. As at June 27, 2020, no fees remain outstanding.

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 timber services under a Crown License Agreement at the direction of Twin Rivers.

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

(CAD thousands)	Total	Less Than One Year (2020-2021)	1 to 3 Years (2021-2023)	3 to 5 Years (2024-2026)	After 5 Years (>2026)
Debt					
Term facility due October 2020 ¹	\$ 89,424	\$ 89,424	\$ —	\$ —	\$ —
Term facility due March 2025 ¹	20,172	—	—	20,172	—
Revolving facility	—	—	—	—	—
	\$ 109,596	\$ 89,236	\$ —	\$ 20,172	\$ —

1. Represents principal of a U.S. dollar denominated term facilities with a U.S. to Canadian dollar conversion rate of 1.3676, excluding the unamortized deferred financing costs and unamortized gain resulting from the refinancing of the long-term debt.

Risk Factors

Risk factors are discussed in the Company's MD&A for the year ended December 31, 2019, with the addition of the following.

COVID-19

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand, and increase government regulations or intervention, all of which may negatively impact the Company and its financial results and conditions and the Company's accounting estimates and assumptions including the valuation of timberlands. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Company in future periods.

Cautionary Statement Regarding Forward-Looking Information and Statements

This MD&A contains forward-looking information and statements 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, 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 forward-looking statements may contain such words as "may," "will," "intend," "should," "suggest," "expect," "believe," "outlook," "forecast," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information is included in the Letter to Shareholders which precedes this MD&A and includes statements made in this MD&A in sections entitled "Dividend Policy of the Company," 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; changes in US housing starts; 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 or U.S. income tax law; economic situation of key customers; disease outbreak; Acadian'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 the Annual Report dated February 12, 2020 and in each of the Annual Information Form dated March 27, 2020 and the Management Information Circular dated March 27, 2020, 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: forecasts in the housing market; 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.

Approved by the Board of Directors: July 29, 2020
Edmundston, New Brunswick, Canada

Interim Condensed Consolidated Balance Sheets

(unaudited)

<i>As at</i> <i>(CAD thousands)</i>	Note	June 27, 2020	December 31, 2019
Assets			
Current assets			
Cash		\$ 9,776	\$ 7,601
Accounts receivable and other assets		6,259	11,602
Current income taxes receivable		686	2,245
Inventory		554	1,545
		17,275	22,993
Timber	9	388,351	377,992
Land, roads and other fixed assets		93,712	91,584
Intangible assets		6,140	6,140
Total assets		\$ 505,478	\$ 498,709
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt	3	\$ —	\$ 7,793
Accounts payable and accrued liabilities		5,451	9,190
Dividends payable to shareholders	8	4,839	4,839
Current portion of long-term debt	3	—	93,084
		10,290	114,906
Long-term debt	3	108,357	—
Deferred income tax liability		100,835	97,102
Shareholders' equity		285,996	286,701
Total liabilities and shareholders' equity		\$ 505,478	\$ 498,709

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Net Income

(unaudited)

<i>(CAD thousands, except per share data)</i>	Note	Three Months Ended		Six Months Ended	
		June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Sales	6	\$ 11,458	\$ 17,918	\$ 42,866	\$ 48,856
Operating costs and expenses					
Cost of sales		7,768	12,575	28,629	32,496
Selling, administration and other		2,086	2,424	4,303	4,623
Reforestation		250	374	251	374
Depreciation and amortization		71	72	137	144
		10,175	15,445	33,320	37,637
Operating earnings		1,283	2,473	9,546	11,219
Interest expense, net		(1,172)	(970)	(2,463)	(1,979)
Other items					
Fair value adjustments and other		4,237	3,112	3,218	1,270
Unrealized exchange gain / (loss) on long-term debt		3,030	1,903	(5,180)	3,937
Gain / (loss) on sale of timberlands		—	492	—	531
Gain / (loss) on disposal of other fixed assets		—	1	—	1
Earnings before income tax		7,378	7,011	5,121	14,979
Current income tax recovery / (expense)	7	(656)	368	(1,558)	(1,332)
Deferred income tax recovery / (expense)	7	(1,493)	(1,595)	(2,045)	(1,681)
Net income		\$ 5,229	\$ 5,784	\$ 1,518	\$ 11,966
Net income per share – basic and diluted		\$ 0.31	\$ 0.35	\$ 0.09	\$ 0.72

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Comprehensive Income

(unaudited)

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net income	\$ 5,229	\$ 5,784	\$ 1,518	\$ 11,966
Other comprehensive income (loss)				
Item that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain / (loss)	(4,169)	(2,845)	7,455	(5,947)
Gain on revaluation of roads and land	—	(14)	—	(14)
Deferred income tax recovery	—	4	—	4
Comprehensive income	\$ 1,060	\$ 2,929	\$ 8,973	\$ 6,009

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity

(unaudited)

<i>Six Months Ended June 27, 2020</i> <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balance as at December 31, 2019		\$ 139,394	\$ 83,903	\$ 35,679	\$ 27,725	\$ 286,701
Changes in period						
Net income		—	1,518	—	—	1,518
Other comprehensive income		—	—	—	7,455	7,455
Shareholders' dividends declared	8	—	(9,678)	—	—	(9,678)
Balance as at June 27, 2020		\$ 139,394	\$ 75,743	\$ 35,679	\$ 35,180	\$ 285,996

See accompanying notes to unaudited interim condensed consolidated financial statements.

<i>Six Months Ended June 29, 2019</i> <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balance as at December 31, 2018		\$ 139,431	\$ 85,936	\$ 30,272	\$ 34,773	\$ 290,412
Changes in period						
Net income		—	11,966	—	—	11,966
Common shares repurchased under NCIB	4	(37)	—	—	—	(37)
Other comprehensive loss		—	—	(10)	(5,947)	(5,957)
Shareholders' dividends declared	8	—	(9,679)	—	—	(9,679)
Balance as at June 29, 2019		\$ 139,394	\$ 88,223	\$ 30,262	\$ 28,826	\$ 286,705

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

(unaudited)

(CAD thousands)	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Cash provided by (used for):				
Operating activities				
Net income	\$ 5,229	\$ 5,784	\$ 1,518	\$ 11,966
Adjustment to net income:				
Deferred income tax expense	1,493	1,595	2,045	1,681
Depreciation and amortization	71	72	137	144
Fair value adjustments and other	(4,237)	(3,112)	(3,218)	(1,270)
Unrealized exchange (gain) / loss on long-term debt	(3,030)	(1,903)	5,180	(3,937)
Gain on sale of timberlands	—	(492)	—	(531)
Gain on disposal of other fixed assets	—	(1)	—	(1)
Accretion of long-term debt	323	269	723	585
Net change in non-cash working capital balances and other	3,997	355	4,193	(1,035)
	3,846	2,567	10,578	7,602
Financing activities				
Repayment of operating loans	(1,156)	—	(8,169)	—
Issuance of long-term debt	—	—	19,795	—
Repayment of long-term debt	—	—	(9,729)	—
Deferred financing costs	(17)	—	(527)	—
Dividends paid to shareholders	(4,839)	(4,840)	(9,678)	(9,554)
Purchase of common shares under NCIB	—	—	—	(37)
	(6,012)	(4,840)	(8,308)	(9,591)
Investing activities				
Additions to timber, land, roads and other fixed assets	(87)	(18)	(95)	(18)
Proceeds from sale of timberlands	—	527	—	567
Proceeds from sale of other fixed assets	—	1	—	1
	(87)	510	(95)	550
Increase / (decrease) in cash during the period	(2,253)	(1,763)	2,175	(1,439)
Cash beginning of period	12,029	22,644	7,601	22,320
Cash end of period	\$ 9,776	\$ 20,881	\$ 9,776	\$ 20,881

See accompanying notes to unaudited interim condensed consolidated financial statements.

Details of the net change in non-cash working capital balances and other:

(CAD thousands)	Three Months Ended		Six Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Accounts receivable and other assets	\$ 5,782	\$ 3,248	\$ 5,343	\$ 205
Inventory	2,139	2,943	991	1,637
Accounts payable and accrued liabilities	(3,545)	(2,916)	(3,739)	(2,875)
Current taxes receivable / payable	657	(1,353)	1,559	990
Other	(1,036)	(1,567)	39	(992)
	\$ 3,997	\$ 355	\$ 4,193	\$ (1,035)

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 Corporations 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 365 Canada Road, Edmundston, New Brunswick, E3V 1W2.

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 300,000 acres of freehold timberlands in Maine (“Maine Timberlands”), and provide timber services relating to approximately 1.3 million acres of Crown licensed timberlands in New Brunswick. Acadian’s products include softwood and hardwood sawlogs, pulpwood and biomass by-products sold to approximately 85 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.

On August 20, 2019, Brookfield Asset Management Inc. (“Brookfield”) sold its 45% interest in the Company comprising 7,513,262 common shares to Macer Forest Holdings Inc. (“Macer”). As at June 27, 2020, Macer owns 7,513,262 shares representing approximately 45% of the outstanding shares of the Company.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited 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 and using the accounting policies adopted and disclosed in note 2 of Acadian’s 2019 annual report. These interim condensed consolidated financial statements should be read in conjunction with Acadian’s 2019 annual report.

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand, and increase government regulations or intervention, all of which may negatively impact the Company and its financial results and conditions and the Company’s accounting estimates and assumptions including the valuation of timberlands. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Company in future periods.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of Acadian on July 29, 2020.

NOTE 3. LONG-TERM DEBT

Long-term debt consists of the following:

<i>As at</i> <i>(CAD thousands)</i>		June 27, 2020		December 31, 2019
Term facilities	\$	109,596	\$	94,169
Less:				
Gain resulting from refinancing, net of accretion		(524)		(830)
Deferred debt issuance costs		(715)		(255)
	\$	108,357	\$	93,084
Revolving facility		-		7,793
Total	\$	108,357	\$	100,877

Acadian has U.S. dollar denominated credit facilities with MetLife Insurance Company. These credit facilities include term credit facilities and a revolving credit facility of up to U.S. \$10.0 million (the "Revolving Facility") for general corporate purposes. 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 impacted by fluctuations in interest rates.

The term credit facilities ("Term Facilities") include a U.S. \$72.5 million loan, maturing on October 1, 2020, that bears interest at a fixed rate of 3.01%, of which U.S. \$65.25 million was outstanding at June 27, 2020. In addition, on March 6, 2020, Acadian established new term credit facilities with MetLife Insurance Company totaling U.S. \$80.0 million with maturity dates ranging from March 6, 2025 to March 6, 2030 and interest rates ranging from 2.7% to 3.0%, of which U.S.\$14.75 million is drawn at June 27, 2020 with an interest rate of 2.72% and is due March 6, 2025. The remainder of these facilities will be used to repay the term facility amount maturing on October 1, 2020. There are no scheduled repayments of principal required prior to the maturity dates of the Term Facilities.

As at June 27, 2020, Acadian had borrowed U.S. \$80.0 million under the Term Facilities (December 31, 2019 – U.S. \$72.5 million). The Revolving Facility was undrawn at June 27, 2020 (December 31, 2019 – U.S. \$6.0 million). As well, U.S. \$1.8 million of the Revolving Facility is reserved to support the minimum cash balance requirement of the Term Facilities. 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 at June 27, 2020 and December 31, 2019.

The fair value of the Term Facilities as at June 27, 2020 is \$110.5 million (December 31, 2019 – \$94.3 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 Facilities 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. Common shares issued and outstanding are as follows:

	June 27, 2020	June 29, 2019
Outstanding, beginning of period	16,686,916	16,688,416
Purchased under NCIB	—	(1,500)
Outstanding, end of period	16,686,916	16,686,916
Weighted average shares outstanding	16,686,916	16,686,933

NOTE 5. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company had previously entered into various transactions on market terms with related parties, which have been measured at exchange value and recognized in the interim condensed consolidated financial statements. The Company's one significant related party prior to August 20, 2019 was Brookfield. Prior to August 20, 2019, Brookfield owned 7,513,262 common shares of the Company representing 45% of the Company's outstanding shares. The common shares previously owned by Brookfield were sold to Macer on August 20, 2019, resulting in Macer becoming a related party. There were no related party transactions with Macer during the six-month period ended June 27, 2020 (June 29, 2019 - \$nil). As at June 27, 2020, Macer owned 7,513,262 common shares, representing approximately 45% of the Company's outstanding shares.

Upon inception, Acadian entered into a management agreement with Brookfield whereby Brookfield provided a number of administrative and advisory services to Acadian. The agreement with Brookfield was terminated by Acadian on September 9, 2019. Fees for services provided up to and including September 9, 2019, and in the year ended December 31, 2019, totaled \$2.2 million including \$1.2 million for the six months ended June 29, 2019. In addition, Acadian paid fees of \$18.0 million to Brookfield in connection with the termination of the management agreement during the year ended December 31, 2019.

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 operating segments, the NB Timberlands and Maine Timberlands. Timber sales are recognized upon harvest and delivery of the softwood and hardwood timber or biomass to the customer and timber services are recognized when the service provided to the customer has been completed. Sales, net income, assets and liabilities by reportable segments are as follows:

<i>Three Months Ended June 27, 2020</i> <i>(CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Sales				
Softwood	\$ 3,316	\$ 2,506	\$ 810	\$ —
Hardwood	5,273	4,248	1,025	—
Biomass	631	631	—	—
Timber services and other sales	2,238	2,097	141	—
Total sales	11,458	9,482	1,976	—
Operating costs and expenses				
Cost of sales	7,768	6,286	1,482	—
Selling, administration and other	2,086	1,215	327	544
Reforestation	250	200	50	—
Depreciation and amortization	71	41	30	—
	10,175	7,742	1,889	544
Operating earnings / (loss)	1,283	1,740	87	(544)
Fair value adjustments and other	4,237	2,966	1,368	(97)
Earnings / (loss) before the undernoted	5,520	4,706	1,455	(641)
Unrealized exchange gain on long-term debt	3,030			
Interest expense, net	(1,172)			
Earnings before income taxes	7,378			
Current income tax expense	(656)			
Deferred income tax expense	(1,493)			
Net income	\$ 5,229			
As at June 27, 2020 <i>(CAD thousands)</i>				
	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Timber, land, roads and other fixed assets and intangible assets	\$ 488,203	\$ 307,177	\$ 181,026	\$ —
Total assets	505,478	313,069	183,999	8,410
Total liabilities	\$ 219,482	\$ 3,359	\$ 34,748	\$ 181,375

<i>Three Months Ended June 29, 2019</i>				
<i>(CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Sales				
Softwood	\$ 5,505	\$ 3,621	\$ 1,884	\$ —
Hardwood	7,520	6,071	1,449	—
Biomass	1,240	1,237	3	—
Timber services and other sales	3,653	3,520	133	—
Total sales	17,918	14,449	3,469	—
Operating costs and expenses				
Cost of sales	12,575	9,958	2,617	—
Selling, administration and other	2,424	1,525	561	338
Reforestation	374	374	—	—
Depreciation and amortization	72	43	29	—
	15,445	11,900	3,207	338
Operating earnings / (loss)	2,473	2,549	262	(338)
Gain on sale of timberlands	492	243	249	—
Gain on disposal of other fixed assets	1	—	1	—
Fair value adjustments and other	3,112	2,050	1,218	(156)
Earnings / (loss) before the undernoted	6,078	4,842	1,730	(494)
Unrealized exchange gain on long-term debt	1,903			
Interest expense, net	(970)			
Earnings before income taxes	7,011			
Current income tax recovery	368			
Deferred income tax expense	(1,595)			
Net income	\$ 5,784			
As at June 29, 2019				
<i>(CAD thousands)</i>	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Timber, land, roads and other fixed assets and intangible assets	\$ 455,148	\$ 287,028	\$ 168,120	\$ —
Total assets	484,173	299,085	174,773	10,315
Total liabilities	\$ 197,468	\$ 3,574	\$ 32,821	\$ 161,073

<i>Six Months Ended June 27, 2020</i>					
<i>(CAD thousands)</i>		Total	NB Timberlands	Maine Timberlands	Corporate and Other
Sales					
Softwood	\$	17,203	\$ 9,138	\$ 8,065	\$ —
Hardwood		15,373	12,013	3,360	—
Biomass		2,126	2,124	2	—
Timber services and other sales		8,164	7,904	260	—
Total sales		42,866	31,179	11,687	—
Operating costs and expenses					
Cost of sales		28,629	20,803	7,826	—
Selling, administration and other		4,303	2,515	645	1,143
Reforestation		251	201	50	—
Depreciation and amortization		137	81	56	—
		33,320	23,600	8,577	1,143
Operating earnings / (loss)		9,546	7,579	3,110	(1,143)
Fair value adjustments and other		3,218	3,081	(88)	225
Earnings / (loss) before the undernoted		12,764	10,660	3,022	(918)
Unrealized exchange loss on long-term debt		(5,180)			
Interest expense, net		(2,463)			
Earnings before income taxes		5,121			
Current income tax expense		(1,558)			
Deferred income tax expense		(2,045)			
Net income	\$	1,518			

<i>Six Months Ended June 29, 2019</i>								
<i>(CAD thousands)</i>		Total	NB Timberlands	Maine Timberlands	Corporate and Other			
Sales								
Softwood	\$	20,873	\$	11,953	\$	8,920	\$	—
Hardwood		16,391		12,661		3,730		—
Biomass		2,744		2,736		8		—
Timber services and other sales		8,848		8,548		300		—
Total sales		48,856		35,898		12,958		—
Operating costs and expenses								
Cost of sales		32,496		24,198		8,298		—
Selling, administration and other		4,623		2,971		1,065		587
Reforestation		374		374		—		—
Depreciation and amortization		144		87		57		—
		37,637		27,630		9,420		587
Operating earnings / (loss)		11,219		8,268		3,538		(587)
Gain on sale of timberlands		531		243		288		—
Gain on disposal of other fixed assets		1		—		1		—
Fair value adjustments and other		1,270		1,754		(185)		(299)
Earnings / (loss) before the undernoted		13,021		10,265		3,642		(886)
Unrealized exchange gain on long-term debt		3,937						
Interest expense, net		(1,979)						
Earnings before income taxes		14,979						
Current income tax expense		(1,332)						
Deferred income tax expense		(1,681)						
Net income	\$	11,966						

During the three months ended June 27, 2020, approximately 38% of total sales (2019 – 41%) were originated with customers domiciled in the U.S. and the balance in Canada. During the same period, approximately 27% of total sales (2019 – 33%) were denominated in U.S. dollars.

Acadian outsources much of its harvesting, transportation and other services that comprise the majority of Acadian's cost of sales. For the three months ended June 27, 2020, Acadian's top three suppliers accounted for approximately 11%, 6% and 5%, respectively, of Acadian's total harvesting and delivery costs (2019 – 15%, 9% and 9%, respectively).

Acadian sells its products to many forest products companies in North America. For the three months ended June 27, 2020, sales to the largest and next largest customer accounted for 14% and 13%, respectively, of Acadian's total sales (2019 – 20% and 12%, respectively).

NOTE 7. INCOME TAXES

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

<i>(CAD thousands)</i>	Three months ended		Six months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Income tax expense				
Income taxes at statutory rate	\$ 2,139	\$ 2,035	\$ 1,485	\$ 4,346
Foreign tax rate differential	(14)	(17)	(30)	(36)
Permanent differences	(237)	(566)	731	(816)
Imposition of new legislation	701	—	701	—
Benefit of previously unrecognized tax attributes	(440)	(222)	716	(478)
Other	—	(3)	—	(3)
Total income tax expense	\$ 2,149	\$ 1,227	\$ 3,603	\$ 3,013

NOTE 8. 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 June 27, 2020 were \$4.8 million (June 29, 2019 – \$4.8 million) or \$0.29 per share (June 29, 2019 – \$0.29 per share).

NOTE 9. TIMBER

<i>(CAD thousands)</i>	
Balance as at December 31, 2018	\$ 367,901
Disposals	(6)
Gains arising from growth	30,354
Reduction arising from harvest	(28,570)
Gain from fair value price and other charges	14,842
Foreign exchange	(6,529)
Balance as at December 31, 2019	\$ 377,992
Gains arising from growth	14,429
Reduction arising from harvest	(10,949)
Foreign exchange	6,879
Balance as at June 27, 2020	\$ 388,351

BOARD AND MANAGEMENT

BOARD OF DIRECTORS

Reid Carter
Corporate Director

Malcolm Cockwell *Managing
Director Haliburton Forest*

Bruce Robertson
*Vice President
The Woodbridge Company Limited*

Karen Oldfield
Corporate Director

Heather Fitzpatrick
*President and CEO
Halmont Properties Corporation.*

MANAGEMENT

Erika Reilly
President and
Chief Executive Officer
Acadian Timber Corp.

Adam Sheparski
Chief Financial Officer
Acadian Timber Corp.

Normand Haché
Senior Vice President,
Marketing and Operations
Acadian Timber Corp.

CORPORATE AND SHAREHOLDER INFORMATION

HEAD OFFICE

365 Canada Road
Edmundston, N.B. E3V 1W2

Please direct your inquiries to:
Adam Sheparski
Chief Financial Officer
t. 506.737-2045 ext. 2345
e. ir@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:

AST Trust Company (Canada)
P.O. Box 700, Station A
Montreal, QC H3B 3K3
t. 1-800-387-0825 (toll free in North America)
f. 1-888-249-6189
e. inquiries@astfinancial.com
www.astfinancial.com/ca-en

SHARE INFORMATION

Toronto Stock Exchange: ADN
Fully Diluted Shares Outstanding (March 28, 2020): 16.686.916
Targeted 2020 Quarterly Dividend: \$0.29 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 and statements 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 forward-looking statements may contain such words as "may," "will," "intend," "should," "suggest," "expect," "believe," "outlook," "forecast," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the negative of these terms or other similar terminology. Forward-looking information is included in the Letter to Shareholders which precedes this MD&A and includes statements made in this MD&A 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; disease outbreak; changes in U.S. housing starts; 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 and U.S. income tax law; the economic situation of key customers; Acadian'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 27, 2020 and the Management Information Circular dated March 27, 2020, 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: forecasts in the housing market; 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.