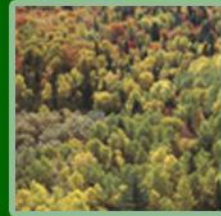




ACADIAN TIMBER



Acadian Timber Corp. Annual General Meeting Transcript

Date: Wednesday, May 02, 2012

Time: 10:00 AM ET

Speakers: **Reid Carter**
President and Chief Executive Officer

Sam Pollock
Chairman of the Board



ACADIAN TIMBER

SAM POLLOCK:

Good morning ladies and gentlemen. It is my pleasure to welcome everyone here today. It is now just about 10:00 AM and time to start the Annual Meeting of Acadian Timber Corp. My name's Sam Pollock and as Chairman of the company I will chair this meeting.

With me at the head table today is Reid Carter; President and Chief Executive Officer and also a Director. I now call the meeting to order and ask Leigh Tang, Corporate Secretary of the company to act as Secretary of the meeting. I would also ask Canadian Stock Transfer Company, the administrative agent of CIBC Mellon Trust Company, by its representatives, Christopher de Lima, to act as scrutineer.

Before we turn to the business before us, I would like to deal with a few procedural matters. For the purposes of running the meeting efficiently arrangements have been made to have certain shareholders move and second the resolutions coming before the meeting. A presentation will be made following the formal business portion of the meeting after which management will be pleased to discuss any questions you may have.

The Notice calling the meeting and the Management Information Circular were sent to shareholders. I've asked Leigh Tang to file a Proof of Service of the Notice of Meeting with the records of the meeting and she has done so. The minutes of last year's annual meeting held on May 3, 2011 are available should any shareholder wish to review them.

Based on the scrutineer's preliminary report on attendance, the Secretary has confirmed that there is a quorum present. I therefore declare the meeting properly constituted for the transaction of business for which it has been called. We will now table the corporation's 2011 Annual Report to Shareholders which includes the 2011 financial statements together with the Auditor's Report.

Copies of our Annual Report were mailed to registered shareholders and are also available outside here today.

We will now proceed with the election of five directors each of whom is to be elected at this meeting to hold office until the next annual meeting. The particulars of the five nominees are set out in information process circular which accompanied the Notice of Meeting sent to shareholders. I will now call for nominations for the election of five directors of the corporation.

KATHERINE VYSE:

Mr. Chairman, my name is Katherine Vyse and I nominate the following persons; Messrs. Bud Bird, Reid Carter, David Mann, Louis Maroun and Sam Pollock and move that they be elected directors of the corporation to hold office until the next annual meeting.

SAM POLLOCK:

Thank you Katherine. Are there any further nominations? Thank you, ladies and gentlemen. As there are no further nominations, I declare the nominations closed.

As there are five persons nominated for the same number of positions, I now declare that those nominated have been duly elected to represent the Corporation by acclamation.

I would now like to introduce to you the other directors who, in addition to Reid and myself, are with us today and ask them to stand as their names are called, Bud Bird, David Mann and Lou Maroun



We also have Brian Banfill, our Chief Financial Officer here and present today, maybe Brian can stand up. And Leigh, our Corporate Secretary maybe you should stand up as well, thanks.

The last item of business is the appointment of auditors. As stated in the Notice of Meeting it is the intention of the persons named in the form of proxy to vote in favor of a resolution appointing Ernst & Young LLP as auditors of the Corporation to hold office until the next Annual Meeting and authorizing the Board to fix their remuneration subject to contrary instructions given in the form of proxy.

Will someone please move a resolution for the appointment of auditors?

DAVID MANN:

Mr. Chairman, my name is David Mann, and I am Chair of the Corporation's Audit Committee. I move that Ernst & Young LLP be appointed auditors of the Corporation until the next Annual Meeting and that the Directors be authorized to fix their remuneration

SAM POLLOCK:

Thank you, David. May I have a seconder?

ANGELA MARIER:

Mr. Chairman, my name is Angela Marier, and I second the motion.

SAM POLLOCK:

Thank you, Angie.

Adoption of this motion requires the favorable vote of a majority of the votes casted at the meeting by shareholders. Management has received proxies representing approximately 70% of the corporation's units. These proxies direct management to vote over 99% of these units in favor of the resolution.

Since the votes against the resolution are minimal, I propose to take the vote by a show of hands unless a shareholder requires a ballot. Would anyone like a ballot? Therefore, if no one does, I will now take this vote by a show of hands.

All those in favor of the motion? Against, if any? I declare the motion carried.

Thank you, ladies and gentlemen. This concludes the formal part of today's meeting.

Before I turn over to Reid, I'll just read the Safe Harbor note. Please note that during the course of our presentation and in responding to questions about our financial and operating performance, we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information on our risk factors, I encourage you to review Acadian's Annual Report and Annual Information Form, which are posted on our website.

With that, I would now ask Reid to come up and make a few remarks.

REID CARTER:

Thank you Sam. Thank you for joining us this morning.



ACADIAN TIMBER

This morning I would like to provide you with an overview of our operations; discuss the company's achievements and performance in 2011; provide an update on events so far in 2012 and offer an outlook for 2012.

Let's begin with the company's operations today. Acadian is a leading supplier of primary forest products in Eastern Canada and the Northeastern United States. With 1.1 million acres of private timberlands under management Acadian is the second largest timberland operator in New Brunswick and the Maritime Region.

Our timberlands have been under active management for over 100 years. Acadian's business includes all aspects of forest management from plantation establishment to timber harvesting, marketing and selling of timber.

Now, let me turn to Acadian's performance in 2011. Acadian maintained a solid record of positive safety performance among employees and contractors at our New Brunswick operations, and in fact posted our 11th accident-free year for employees in our Maine operations. Importantly, the few reportable incidents that occurred were relatively minor and resulted in very little lost time.

We're also pleased to report that our Maine operation successfully obtained certification under the Sustainable Forestry Initiative during the fourth quarter of 2011, while our New Brunswick operations have been SFI certified since 2000. Acadian completed a very successful refinancing of its long-term debt in February of 2011. The new financing package includes a five-year fixed rate, \$72.5 million loan with an associated \$10 million floating rate revolving loan. The terms of this financing, including the interest rates, are very favorable which we believe the high credit quality of Acadian's assets.

Acadian's operations were challenged in 2011 by unusually wet summer and fall and reduced contractor availability in our Maine operations, both of which led to reduced harvest and sales volumes.

We include this chart each year to demonstrate the breadth of products we produce for a wide spectrum of markets. Our abilities to move between these markets across business cycles, harvesting and merchandizing those products that offer the greatest margin opportunity continues to be the key to maximizing and stabilizing our earnings.

As you can see from this chart, softwood sawlog sales remains stable, about 38% of net sales, with sales volumes decreasing by 5% from 2010. The volume of pulpwood sold declined by 9% in 2010 but the value of sales increased by 1% to 40% of sales, on stronger pulpwood pricing. Hardwood sawlogs and biomass were 10% and 6% of net sales, comparable with 2010.

Looking now at our financial performance in greater detail, we're satisfied with Acadian's financial performance in 2011. Given difficult markets, challenging weather conditions over the year, along with reduced contractor availability in our Maine operations, an 8% year-over-year decrease in sales volumes caused Acadian's sales to fall by \$4.8 million and adjusted EBITDA to slip by 13% or \$2.3 million.

Increasing fuel costs and contractor rates, particularly in our Maine operations, also presented cost challenges during the year further impacting adjusted EBITDA.

As you're aware, Acadian returned its annual dividend rate to \$0.825 per share in the first quarter of 2011. Operating challenges during the year, along with the continuation of the depressed log pricing environment,



decreased cash flow causing Acadian's payout ratio for 2011 to climb to 111%. While this exceeds our target 95% payout level, the current dividend rate continues to reflect our long-term view on sales volumes and the return to normalized basis. And our strong balance sheet gives us considerable confidence in our ability to maintain our dividend rate.

I'll now briefly review Acadian's first quarter in 2012. Our strong commitment to safety continues to show positive results and we are pleased to report that during the first quarter of 2012, Acadian's operations did not experience any recordable safety incidents among employees or contractors. Operating conditions were excellent in January and February, but exceptionally warm weather in March led to an early spring break up reducing harvest and sales volumes for the quarter.

Sales volumes and adjusted EBITDA were further impacted by the implementation of a vendor managed inventory program with one of our largest customers. This program reduced sales volumes by approximately 72,000 cubic meters during the quarter and deferred the realization of approximately \$1.5 million of adjusted EBITDA to the second quarter.

Free cash flow of \$4 million resulted in an 86% payout ratio which together with reduced amounts of receivables brought Acadian's cash balance up to \$6.5 million at the end of the quarter, a \$2.5 million improvement for the balance of 2011.

This brings me to the outlook portion of our presentation. The U.S. housing market sent mixed signals during the winter months with mild winter weather supporting positive news that may have simply reflected second quarter sales being pulled forward into the first quarter. We continue to believe that recovery of the U.S. housing market will not occur until the broader economy improves with concurrent employment growth and improving consumer confidence; along with the decline in the inventory of unsold homes and homes in foreclosure.

Despite these broad economic challenges, most of Acadian's softwood sawmilling customers are maintaining active operations and demand for spruce fir sawlogs continues to be reasonably strong. Markets for hardwood pulpwood remain strong with Acadian's sawmilling customers are maintaining active operations and demand for spruce fir sawlogs continues to be reasonably strong. Markets for hardwood and pulpwood remains strong with Acadian's major hardwood pulp customers all operating and actively competing for deliveries suggesting prices remain stable through year end.

Softwood pulp markets are increasingly soft as there has been an ample supply of sawmill residuals and too little demand from regional pulp mills. As a result we expect softwood pulp prices to continue to soften through the summer. Fortunately this is only a very small portion of Acadian's total sales.

Markets for hardwood sawlogs remains stable and a period of a similar outlook for the foreseeable future. While biomass markets continue to face significant market challenges. Co-generation plants associated with manufacturing facilities are generally in good shape, while standalone wood-to-energy plants continue to suffer from depressed prices for electricity and decade's low prices for natural gas. Despite this challenging environment Acadian continues to be able to sell all of its biomass with a stable price outlook. In summary, we expect 2012 to present improving, although uncertain, conditions.



ACADIAN TIMBER

In conclusion, Acadian benefits from a strong balance sheet, a dependable free cash flow and a talented and committed workforce allowing us to remain confident that Acadian is well positioned to meet its dividend target for 2012 and beyond.

Our primary goal continues to be to maximize long-term value for shareholders with our strategies aiming to optimize harvest mix in accordance with market opportunities, focus on reducing costs wherever possible, actively working to improve timber selling prices and steadily improve free cash flows.

We continue to believe Acadian has a high-quality timberland asset base and represents a unique opportunity to invest in a renewable and non-depreciating resource. We look forward to demonstrating this view of our business through steadily improving cash flows in 2012 and beyond.

Mr. Chairman, that brings us to the conclusion of the presentation. I think if there were any questions we'd welcome them.

PAUL GURNON:

My name is Paul Gurnon. Are you basically -- is Noranda Forest of the 1990's is that your company reborn or is that -- any connection at all to that?

REID CARTER:

So Noranda Forest spun out its pulp and paper and timberland operations into Fraser Papers. And then Fraser Papers sold its New Brunswick timberlands into the formation of Acadian in January of 2006. The main operations were owned by Brookfield, then Brascan, at that time. So it's a combination of the former Fraser Papers, Noranda Forest Timberlands and the Maine Timberlands.

PAUL GURNON:

And the former Fraser Papers and?

REID CARTER:

And the Maine Timberlands, that we're owned directly by Brookfield, or Brascan at the time.

PAUL GURNON:

Okay. What percent of all production is -- gone to the States?

REID CARTER:

Well, there's both direct and indirect sales. Approximately 70% is sold into Canada initially, but the products which are primarily lumber products, pulp and then paper products, I would estimate because those are our customer's customers, I would estimate that more than two-thirds, probably three-quarters end up being sold into the United States.

In our Maine operations, I would say more than 90% ends up, and certainly closer to 95% would end up in the States. We do sell to one Canadian mill actively.

PAUL GURNON:

Okay. What's the name of the -- you're the second largest in --?



ACADIAN TIMBER

REID CARTER:

Irving has a large timberlands in --

PAUL GURNON:

Thanks.

UNIDENTIFIED AUDIENCE MEMBER:

What's the stock price here?

REID CARTER:

I haven't looked today, it's at -- sorry, what was it?

UNIDENTIFIED COMPANY REPRESENTATIVE:

\$11.22

REID CARTER:

\$11.22

UNIDENTIFIED AUDIENCE MEMBER:

Okay so given that enterprise value to cash flow is pretty robust, any acquisitions of timberlands you can do to possibly and scale the business end?

REID CARTER:

We actively look at opportunities across, certainly Canada and North America. Over much of the past several years I think Acadian's share price has, relative to the kind of multiples that private equity buyers have been using in timberland transactions, have made accretive acquisitions difficult because it doesn't -- more recently with timberland selling prices particularly has expectations around some higher and better use opportunities have moderated. I think that our currency is closer to being competitive today. And one of the issues for us in the New England, certainly Maine area, is that many of the buyers have been conservation buyers rather than timberland cash flow buyers. And they're using different criteria that are very hard for us to match.

UNIDENTIFIED AUDIENCE MEMBER:

In a private equity sense,

REID CARTER:

Well, the industry surveys would suggest that 6% to 6.5% real discount rates, unlevered rates are very much the standard. In Canada you probably can add 75 to 100 basis points to those.

Any further questions?

If not I think that brings it to an end.

SAM POLLOCK:

I'd just thank everyone for coming again this year and if there are no further questions then I would declare the meeting terminated. Thank you.