



ACADIAN TIMBER CORP.

Q2 2022 INTERIM REPORT

JUNE 25, 2022

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LETTER TO SHAREHOLDERS

Overview

During the three months ended June 25, 2022 (the “second quarter”), Acadian Timber Corp. (“Acadian” or the “Company”) benefited from strong demand for its softwood and hardwood sawlogs and strengthened demand for its pulpwood products. However, operations were impacted by a later start-up compared to 2021. While the second quarter of the year is traditionally our weakest due to seasonal operating conditions, limited contractor availability caused further delays. Lower volumes as compared to the same quarter of 2021 were partially offset by stronger prices across all products, excluding biomass, offset by rising fuel costs.

Acadian generated \$1.9 million of Free Cash Flow¹ and declared dividends of \$4.9 million to shareholders during the second quarter. Our balance sheet continues to be solid with \$19.5 million of net liquidity¹ as at June 25, 2022, which includes funds available under our credit facilities.

Results of Operations

Acadian is committed to health and safety as our number one priority. We believe that emphasizing and achieving good safety performance is a leading indicator of success in the broader business. Acadian’s operations experienced one recordable safety incident during the quarter among employees and none among contractors. The individual has made a full recovery and has returned to work. We remain committed to maintaining a culture across the organization that emphasizes the importance of strong safety performance.

Acadian generated sales of \$16.5 million, compared to \$19.4 million in the prior year period, with sales volume, excluding biomass, down 21% primarily as a result of a later start to operations after the spring thaw compared to the prior year period, as well as limited contractor availability in the second quarter. Weighted average selling price, excluding biomass, increased 18% year-over-year, benefiting from strong sawlog prices and improved pulpwood prices driven by strong demand, as well as the partial recovery of rising fuel costs from our customers.

Adjusted EBITDA¹ was \$2.7 million during the second quarter compared to \$3.9 million in the prior year period, reflecting lower operating income. Adjusted EBITDA margin¹ for the quarter was 17% compared to 20% in the prior year period.

Net income for the second quarter totaled \$4.5 million, or \$0.27 per share, compared to net income of \$6.0 million, or \$0.36 per share in the same period of 2021. The decrease in net income from the prior year period is due mainly to lower operating income and changes in the non-cash unrealized foreign exchange gains on long term debt, offset by increased fair value adjustments.

Carbon Credit Project

During 2021, Acadian executed its first carbon development and marketing agreement to develop voluntary carbon credits on the portion of its Maine Timberlands that is subject to a working forest conservation easement. This project commits Acadian to balancing harvest and growth, and requires long term planning, annual reporting, periodic carbon inventory verification, and maintenance of the existing sustainable forestry certification.

While this project is small in relation to the entire Acadian land base and was originally expected to contribute modestly to cash flow, the current markets for voluntary carbon credits have strengthened and the project may contribute more than originally expected. As previously disclosed, the first credits are expected to be sold in the second half of 2022².

Outlook²

The North American economic outlook is uncertain, with interest rates rising and housing prices as well as sales beginning to decline. Although these headwinds may impact the demand for our products, we note that consensus forecast is for approximately 1.62 million U.S. housing starts in 2022 as compared to 1.60 million in 2021. Accordingly, we remain confident that the stability of the northeast forestry sector combined with the long-term demand for new homes as well as repair and remodel activity will support the pricing of our products.

Inflationary pressures are weighing on our financial results: we have seen modest increases in our contractor rates and in the fuel surcharge we pay our contractors as fuel prices continue to be at historic levels. Acadian has worked with its customer base over the last quarter and has begun to recover these costs from our customers.

Although softwood lumber pricing has decreased from its historic levels, demand for softwood sawlogs remains stable with pricing expected to increase over the coming quarters. Subsequent to the second quarter, the Province of New Brunswick announced the implementation of a system that will allow for upward adjustments to Crown timber royalty rates when prices for specific commodities such as lumber are above normal ranges. The implementation of the system is subject to the development of specific legislation. In a step towards this system, 2022-2023 Crown timber royalty rates will be adjusted upward to account for higher-than-normal commodity prices. The immediate direct impact to Acadian's net earnings will not be material, however, the new system may impact future market prices and in turn, the prices obtained by Acadian for products from its freehold timberlands going forward.

End use hardwood markets remain stable throughout the northeast with significant demand and elevated pricing for high grade hardwood sawlogs, which has been aided by the decreased imports from eastern Europe. As we exit the second quarter, with respect to hardwood markets, it is uncertain how the headwinds entailed by the broader economic outlook may be offset by the reduction of imports from eastern Europe.

Hardwood pulpwood demand remains stable and is expected to continue throughout 2022. Meanwhile, softwood pulpwood markets have improved and are expected to remain at improved levels throughout the remainder of 2022.

Looking Ahead

Acadian is supported by a strong balance sheet, diverse markets, and a highly capable team dedicated to strong financial and operating performance. We are actively working with our contractors to increase deliveries to our customers for the remainder of the year. Our focus remains on merchandizing our products to obtain the highest margins available and making improvements throughout the business to maximize cash flows from our existing timberland assets, while exploring opportunities to grow.

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



Adam Sheparsi

President and Chief Executive Officer

July 27, 2022

- Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow, and Payout Ratios 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 indicative of the underlying profitability of Acadian's operating segments and 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 Ratios are used to evaluate Acadian's ability to fund its distribution using Free Cash Flow. Acadian's management defines Adjusted EBITDA as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads, unrealized exchange gain/loss on long-term debt and depreciation and amortization and defines Adjusted EBITDA margin as Adjusted EBITDA as a percentage of Acadian's sales. Acadian's management defines Free Cash Flow as Adjusted EBITDA less interest paid, current income tax expense, and capital expenditures plus net proceeds from the sale of timberlands and fixed assets (proceeds less gains or losses). Payout Ratio is defined as dividends declared divided by Free Cash Flow and Payout Ratio with DRIP is defined as dividends paid in cash divided by Free Cash Flow. Reference is also made to net liquidity which includes cash and funds available under credit facilities less amounts reserved to support the minimum cash balance related to long-term debt. As these 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.*
- 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.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All figures in Canadian dollars unless otherwise stated)

July 27, 2022

Introduction

Acadian Timber Corp. ("Acadian", the "Company" or "we") is one of the largest timberland owners in Eastern Canada and the Northeastern U.S. and has a total of approximately 2.4 million acres of land under management. Acadian owns and manages approximately 761,000 acres of freehold timberlands in New Brunswick ("New Brunswick Timberlands" or "NB Timberlands") and 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 90 regional customers.

Acadian's business strategy is to maximize cash flows from its existing timberland assets through sustainable forest management and other land use activities while growing its business by acquiring assets and actively managing these assets 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 and six months ended June 25, 2022 (herein referred to as the "second quarter") compared to the three months and six months ended June 26, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the second quarter and the audited annual consolidated financial statements and the related MD&A for the fiscal year ended December 31, 2021.

Our second quarter unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" using the accounting policies adopted and disclosed in Note 2 of Acadian's audited 2021 consolidated financial statements 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 27, 2022. Additional information is available on Acadian's website at www.acadiantimber.com and on SEDAR at www.sedar.com.

Non-IFRS Measures

Throughout this MD&A, reference is made to "Adjusted EBITDA", which Acadian's management defines as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads and depreciation and amortization, and to "Adjusted EBITDA margin", which is Adjusted EBITDA as a percentage of sales. 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 timberlands and fixed assets (proceeds less gains or losses). Reference made to "Payout Ratio" is defined as dividends declared divided by Free Cash Flow and "Payout Ratio with DRIP" is defined as dividends paid in cash divided by Free Cash Flow. Management believes that Adjusted EBITDA, Adjusted EBITDA margin, Free Cash Flow, and Payout Ratios 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 indicative of the underlying profitability of Acadian's operating segments and are used to evaluate operational performance. Free Cash Flow is used to evaluate Acadian's ability to generate sustainable cash flows from operations while Payout Ratios are used to evaluate Acadian's ability to fund its distribution using Free Cash Flow. 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. Reference is also made to net liquidity which includes cash and funds available under credit facilities less amounts reserved to support the minimum cash balance related to long-term debt. As these measures do not have a standardized meaning prescribed by IFRS, they may not be comparable to similar measures presented by other companies.

Assessment and Changes in Disclosure Controls and Internal Controls

Management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as at December 31, 2021. There have been no changes in our disclosure controls and procedures during the six months ended June 25, 2022 that have materially affected, or are reasonably likely to materially affect, our disclosure controls and procedures.

Management, including the Chief Executive Officer and Chief Financial Officer, have 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, 2021. There have been no changes in our internal controls over financial reporting during the six months ended June 25, 2022 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, except per share information)</i>	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021 ¹	June 25, 2022	June 26, 2021 ¹
Sales volume (000s m ³)	156.7	211.3	457.9	501.3
Sales	\$ 16,493	\$ 19,403	\$ 43,124	\$ 45,295
Operating income	2,684	3,840	9,522	10,580
Net income	4,516	5,975	8,674	11,799
Adjusted EBITDA ²	\$ 2,747	\$ 3,904	\$ 9,656	\$ 10,778
Adjusted EBITDA margin ²	17%	20%	22%	24%
Free Cash Flow ²	\$ 1,877	\$ 2,941	\$ 6,891	\$ 7,931
Dividends declared	4,856	4,839	9,695	9,678
Dividends paid in cash	3,713	4,839	8,552	9,678
Payout Ratio ^{2,3}	n/a	n/a	141%	122%
Payout Ratio with DRIP ^{2,3}	n/a	n/a	124%	-
Per share – basic and diluted				
Net income	\$ 0.27	\$ 0.36	\$ 0.52	\$ 0.71
Free Cash Flow ²	0.11	0.18	0.41	0.48
Dividends declared	0.29	0.29	0.58	0.58
Book value	17.45	17.42	17.45	17.42
Common shares outstanding ⁴	16,745,766	16,686,916	16,745,766	16,686,916
Weighted average shares outstanding	16,732,832	16,686,916	16,710,792	16,686,916

1. During the fourth quarter of 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the financial data for the second quarter of 2021, resulted in adjustments. The changes increased sales by \$1.0 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$77 thousand in the second quarter of 2021.

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

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

4. As at July 27, 2022 there were 16,812,357 common shares outstanding.

During the second quarter, Acadian generated sales of \$16.5 million, compared to \$19.4 million in the prior year period. The weighted average selling price, excluding biomass, increased 18% year-over-year, benefiting from strong sawlog prices and improved pulpwood prices driven by strong demand, as well as the partial recovery of rising fuel costs from our customers.

Sales volume, excluding biomass, decreased 21% as a result of a later start to operations after the spring thaw compared to the prior year period, as well as limited contractor availability in the second quarter. Biomass sales volume decreased 70% due to unfavourable market conditions.

Operating costs and expenses were \$13.8 million during the second quarter, compared to \$15.6 million during the prior year period. This year-over-year decrease reflects lower harvesting activity and timber services, partially offset by higher fuel prices. Weighted average variable costs, excluding biomass, increased 33% primarily as a result of higher fuel costs.

Net income for the second quarter totaled \$4.5 million, or \$0.27 per share, compared to \$6.0 million, or \$0.36 per share, in the same period of 2021. The variance in net income compared to the prior year period was primarily the result of lower sales volumes and the non-cash unrealized foreign exchange gain on long-term debt recorded in the prior year of \$2.3 million. As a result of the application of hedge accounting effective January 1, 2022 these adjustments are now recorded in other comprehensive income.

Adjusted EBITDA was \$2.7 million during the second quarter compared to \$3.9 million in the prior year period, reflecting lower operating income. Adjusted EBITDA margin for the quarter was 17% compared to 20% in the prior year period. Free Cash Flow was \$1.9 million, being \$1.0 million lower than the prior year period.

During the first half of 2022, Acadian generated sales of \$43.1 million compared to \$45.3 million in the prior year period. The weighted average selling price, excluding biomass, increased 11%, however, sales volume, excluding biomass, decreased 6%. Operating costs and expenses of \$33.6 million were \$1.1 million lower year-over-year. Adjusted EBITDA of \$9.7 million was \$1.1 million lower compared to the prior year period.

For the six months ended June 25, 2022, net income was \$8.7 million, or \$0.52 per share, which represents a decrease of \$3.1 million compared to the prior year period, primarily the result of the non-cash unrealized foreign exchange gain on long-term debt recorded in the prior year of \$3.5 million, compared to \$nil in the current year, as a result of the application of hedge accounting noted above.

Adjusted EBITDA and Free Cash Flow

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:

(CAD thousands)	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021 ¹	June 25, 2022	June 26, 2021 ¹
Net income	\$ 4,516	\$ 5,975	\$ 8,674	\$ 11,799
Add / (deduct):				
Interest expense, net	763	727	1,500	1,482
Income tax expense	1,835	1,481	3,520	3,355
Depreciation and amortization	63	64	120	126
Fair value adjustments and other	(4,430)	(2,055)	(4,158)	(2,480)
Unrealized exchange gain on long-term debt	—	(2,288)	—	(3,504)
Adjusted EBITDA ²	\$ 2,747	\$ 3,904	\$ 9,656	\$ 10,778
Add / (deduct):				
Interest paid on debt, net	(731)	(696)	(1,439)	(1,408)
Additions to timber, land, roads, and other fixed assets	(39)	(88)	(103)	(157)
Gain on sale of timberlands and other fixed assets	—	—	(14)	(72)
Proceeds from sale of timberlands and other assets	—	—	14	75
Current income tax expense	(100)	(179)	(1,223)	(1,285)
Free Cash Flow ²	\$ 1,877	\$ 2,941	\$ 6,891	\$ 7,931
Dividends declared	4,856	4,839	9,695	9,678
Dividends paid in cash	3,713	4,839	8,552	9,678
Payout Ratio ^{2,3}	n/a	n/a	141%	122%
Payout Ratio with DRIP ^{2,3}	n/a	n/a	124%	—

1. During the fourth quarter of 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the financial data for the second quarter of 2021, resulted in adjustments. The changes increased sales by \$1.0 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$77 thousand in the second quarter of 2021.

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

3. 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 record date.

Total dividends declared to shareholders during the three months ended June 25, 2022 were \$4.9 million, or \$0.29 per share, compared to \$4.8 million, or \$0.29 in the same period of 2021. The Payout Ratio for the second quarter is not considered meaningful given the traditionally low level of activity during the quarter.

During the first quarter of 2022, Acadian implemented a dividend reinvestment plan ("DRIP") effective with eligible shareholders of record March 31, 2022, whereby Canadian resident shareholders may elect to automatically have their dividends reinvested in additional shares. Shares issued under the DRIP are issued directly from the treasury of the Company at a price equal to the volume-weighted average trading price of the Company's shares on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant dividend payment date, which is typically on or about the 15th of April, July, October, and January. During the three months ended June 25, 2022, Acadian issued 58,850 common shares in accordance with the DRIP.

Operating and Market Conditions

Acadian's operations during the quarter benefited from strong demand for its products and strong pricing. Softwood and hardwood sawlog demand remained strong due to favourable end use markets. Demand for hardwood pulpwood remained relatively stable while softwood pulpwood markets strengthened due to higher regional demand. Acadian's sales volume, excluding biomass, of 150,300 m³ was down 21% compared to the same period in 2021, due to a later start to operations as well as limited contractor availability in the second quarter.

Strong sawlog prices and a higher value product mix drove an 18% increase in weighted average selling price, excluding biomass. Pricing for softwood sawlogs and hardwood sawlogs increased 16% and 27%, respectively, due to favourable market dynamics. Softwood pulpwood and hardwood pulpwood pricing increased 24% and 10% relative to the same period in 2021, driven by strong regional demand. Second quarter prices also include partial recovery of additional fuel costs from customers. Biomass pricing decreased 41% year-over-year, as a result of unfavourable market conditions.

Segmented Results of Operations

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

Three Months Ended June 25, 2022				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m ³)	123.2	33.5	—	156.7
Sales	\$ 13,544	\$ 2,949	\$ —	\$ 16,493
Adjusted EBITDA ²	\$ 2,710	\$ 364	\$ (327)	\$ 2,747
Adjusted EBITDA margin ²	20%	12%	n/a	17%
Three Months Ended June 26, 2021¹				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m ³)	165.2	46.1	—	211.3
Sales	\$ 15,863	\$ 3,540	\$ —	\$ 19,403
Adjusted EBITDA ²	\$ 3,916	\$ 424	\$ (436)	\$ 3,904
Adjusted EBITDA margin ²	25%	12%	n/a	20%
Six Months Ended June 25, 2022				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m ³)	326.6	131.3	—	457.9
Sales	\$ 31,553	\$ 11,571	\$ —	\$ 43,124
Adjusted EBITDA ²	\$ 7,378	\$ 3,116	\$ (838)	\$ 9,656
Adjusted EBITDA margin ²	23%	27%	n/a	22%
Six Months Ended June 26, 2021¹				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m ³)	355.4	145.9	—	501.3
Sales	\$ 34,184	\$ 11,111	\$ —	\$ 45,295
Adjusted EBITDA ²	\$ 8,995	\$ 2,452	\$ (669)	\$ 10,778
Adjusted EBITDA margin ²	26%	22%	n/a	24%

1. During the fourth quarter of 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the financial data for the second quarter of 2021, resulted in adjustments. The changes increased sales by \$1.0 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$77 thousand in the second quarter of 2021.
2. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this report.

New Brunswick Timberlands

New Brunswick Timberlands owns and manages approximately 761,000 acres of freehold timberlands and provides harvesting and management services relating to approximately 1.3 million acres of Crown licensed timberlands. Approximately 92% of harvest operations are performed by third-party contractors and approximately 8% by New Brunswick Timberlands employees.

During the second quarter of 2022, Acadian's New Brunswick operations experienced no recordable safety incidents among contractors and one recordable incident among employees. The individual has made a full recovery and has returned to work.

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

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021 ¹	June 25, 2022	June 26, 2021 ¹
Harvest (000s m ³)				
Softwood	48.3	41.0	176.4	139.2
Hardwood	42.5	78.8	110.7	159.8
Biomass	3.5	21.4	29.5	51.0
Total	94.3	141.2	316.6	350.0
Sales (000s m ³)				
Softwood	55.7	54.9	181.3	141.4
Hardwood	64.0	88.9	115.8	163.0
Biomass	3.5	21.4	29.5	51.0
Total	123.2	165.2	326.6	355.4
Sales Mix				
Softwood	45%	33%	56%	40%
Hardwood	52%	54%	35%	46%
Biomass	3%	13%	9%	14%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 4,023	\$ 3,464	\$ 12,197	\$ 9,031
Hardwood	5,641	6,476	10,146	12,287
Biomass	152	878	1,308	2,087
Total	9,816	10,818	23,651	23,405
Timber services and other	3,728	5,045	7,902	10,779
Sales	\$ 13,544	\$ 15,863	\$ 31,553	\$ 34,184
Adjusted EBITDA ²	\$ 2,710	\$ 3,916	\$ 7,378	\$ 8,995
Adjusted EBITDA margin ²	20%	25%	23%	26%

1. During the fourth quarter of 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the financial data for the second quarter of 2021, resulted in adjustments. The changes increased sales by \$1.0 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$77 thousand in the second quarter of 2021.

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

Sales for New Brunswick Timberlands were \$13.5 million compared to \$15.9 million during the prior year period. Sales volume, excluding biomass, decreased by 17% primarily due to a later start to operations compared to the second quarter of the prior year and limited contractor availability at the start of spring operations, which also impacted timber services activity. Biomass sales volume decreased 83% as compared to the prior year period due to unfavourable market conditions.

The weighted average selling price, excluding biomass, for the second quarter was \$80.75 per m³, or 17% higher than the prior year period, as a result of strong sawlog and improved pulpwood prices, driven by strong demand, as well as fuel cost recovery from customers. Biomass pricing was up 3% year-over-year.

Operating costs and expenses were \$10.9 million during the second quarter, compared to \$12.0 million in the prior year period due to lower harvesting activity and lower timber services activity, partially offset by higher fuel prices. Weighted average variable costs, excluding biomass, increased 38% primarily as a result of higher fuel costs compared to the prior year period.

Adjusted EBITDA for the quarter was \$2.7 million compared to \$3.9 million in the prior year period and Adjusted EBITDA margin was 20% compared to 25% in the prior year period, reflecting lower operating income.

During the first half of 2022, New Brunswick Timberlands' sales of \$31.6 million decreased 8% from the prior year period. The weighted average selling price, excluding biomass, increased 7%, however sales volume, excluding biomass, decreased 2% year-over-year. Operating costs and expenses of \$24.3 million during the first half of 2022 were \$1.0 million lower than the prior year period due primarily to lower timber services activity, partially offset by higher fuel costs. Adjusted EBITDA was \$7.4 million compared to \$9.0 million in the first half of 2021, and Adjusted EBITDA margin decreased to 20% from 25%.

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 2022.

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

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Harvest (000s m ³)				
Softwood	19.5	27.6	96.6	103.6
Hardwood	5.4	10.0	27.7	36.9
Biomass	3.0	0.3	3.2	0.6
Total	27.9	37.9	127.5	141.1
Sales (000s m ³)				
Softwood	19.7	27.5	96.6	103.5
Hardwood	10.8	18.3	31.5	41.8
Biomass	3.0	0.3	3.2	0.6
Total	33.5	46.1	131.3	145.9
Sales Mix				
Softwood	59%	60%	74%	71%
Hardwood	32%	40%	24%	29%
Biomass	9%	0%	2%	0%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 1,662	\$ 1,855	\$ 8,449	\$ 7,573
Hardwood	1,127	1,552	2,853	3,305
Biomass	6	3	10	8
Total	2,795	3,410	11,312	10,886
Timber services and other	154	130	259	225
Sales	\$ 2,949	\$ 3,540	\$ 11,571	\$ 11,111
Adjusted EBITDA ¹	\$ 364	\$ 424	\$ 3,116	\$ 2,452
Adjusted EBITDA margin ¹	12%	12%	27%	22%

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

Sales for Maine Timberlands during the second quarter totaled \$2.9 million compared to \$3.5 million in the prior year period. Sales volume, excluding biomass, decreased 33% reflecting a later start to operations compared to prior year and limited contractor availability at the start of spring operations.

The weighted average selling price, excluding biomass, in Canadian dollar terms was \$91.13 per m³, compared to \$74.26 per m³ during the same period of 2021. In U.S dollar terms, the weighted average selling price, excluding biomass, was \$71.39 per m³, compared to \$60.38 per m³ in 2021 with higher sawlog and pulpwood prices benefiting from favourable market dynamics, as well as fuel cost recovery from customers.

Operating costs and expenses for the second quarter were \$2.6 million, compared to \$3.1 million during the same period in 2021, primarily due to lower harvesting activity. Weighted average variable costs, excluding biomass, increased 20% primarily as a result of higher fuel costs.

Adjusted EBITDA for the quarter was \$0.4 million and Adjusted EBITDA margin was 12%, both in line with the prior year period.

During the first half of 2022, Maine Timberlands' sales were \$11.6 million compared to \$11.1 million in the prior year period. Maine Timberlands' weighted average selling price, excluding biomass, increased 18% in Canadian dollar terms, and 17% in U.S. dollar terms, however the sales volume, excluding biomass, decreased 12% year-over-year. Operating costs and expenses of \$8.5 million during the first half of 2022 were 3% lower than the \$8.8 million in the prior year period, as a result of lower harvesting activity partially offset by higher fuel costs.

LIQUIDITY AND CAPITAL RESOURCES

Acadian had net liquidity of \$19.5 million as at June 25, 2022, which includes cash and funds available under credit facilities less amounts reserved to support the minimum cash balance related to long-term debt.

Normal Course Issuer Bid

On February 9, 2022, the Company filed a notice of intention with the TSX to purchase for cancellation up to 834,345 common shares during the period commencing February 14, 2022 and ending February 13, 2023, representing 5% of the 16,686,916 common shares outstanding as of February 3, 2022. During the three months and six months ended June 25, 2022, the Company did not purchase any of its common shares.

Liquidity and capital resources are discussed in the Company's MD&A for the year ended December 31, 2021.

OUTLOOK

The following contains forward-looking information about Acadian Timber Corp.'s outlook for the remainder of 2022. Reference should be made to the section entitled "Cautionary Statement Regarding Forward-Looking Information and Statements" for further details. For a description of material factors that could cause actual results to differ materially from the forward-looking information 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 is uncertain, with interest rates rising and housing prices as well as sales beginning to decline. Although these headwinds may impact the demand for our products, we note that consensus forecast is for approximately 1.62 million U.S. housing starts in 2022 as compared to 1.60 million in 2021. Accordingly, we remain confident that the stability of the northeast forestry sector combined with the long-term demand for new homes as well as repair and remodel activity will support the pricing of our products.

Inflationary pressures are weighing on our financial results: we have seen modest increases in our contractor rates and, in the fuel surcharge we pay our contractors, fuel prices continue to be at historic levels. Acadian has worked with its customer base over the last quarter and has begun to recover these costs from our customers.

Although softwood lumber pricing has decreased from its historic levels, demand for softwood sawlogs remains stable with pricing expected to increase over the coming quarters. Subsequent to the second quarter, the Province of New Brunswick announced the implementation of a system that will allow for upward adjustments to Crown timber royalty rates when prices for specific commodities such as lumber are above normal ranges. The implementation of the system is subject to the development of specific legislation. In a step towards this system, 2022-2023 Crown timber royalty rates will be adjusted upward to account for higher-than-normal commodity prices. The immediate direct impact to Acadian's net earnings will not be material, however, the new system may impact future market prices and in turn, the prices obtained by Acadian for products from its freehold timberlands going forward.

End use hardwood markets remain stable throughout the northeast with significant demand and elevated pricing for high grade hardwood sawlogs, which has been aided by the decreased imports from eastern Europe. As we exit the second quarter, with respect to hardwood markets, it is uncertain how the headwinds entailed by the broader economic outlook may be offset by the reduction of imports from eastern Europe.

Hardwood pulpwood demand remains stable and is expected to continue throughout 2022. Meanwhile, softwood pulpwood markets have improved and are expected to remain at improved levels throughout the remainder of 2022.

SELECTED CONSOLIDATED QUARTERLY INFORMATION

The table below sets forth selected consolidated quarterly information for the current and last seven quarters:

(CAD thousands, except per share data and where indicated)	2022		2021				2020	
	Q2	Q1	Q4	Q3 ²	Q2 ²	Q1	Q4	Q3
Sales volume (000s m ³)	156.7	301.2	290.1	270.9	211.3	290.0	321.2	302.3
Sales	\$ 16,493	\$ 26,631	\$ 25,946	\$ 24,488	\$ 19,403	\$ 25,892	\$ 24,929	\$ 23,236
Adjusted EBITDA ¹	2,747	6,909	6,315	5,394	3,904	6,874	7,288	4,514
Free Cash Flow ¹	1,877	5,014	5,149	3,853	2,941	4,990	5,648	3,149
Net income	4,516	4,158	6,541	344	5,975	5,824	15,314	5,248
Per share -basic and diluted	\$ 0.27	\$ 0.25	\$ 0.39	\$ 0.02	\$ 0.36	\$ 0.35	\$ 0.92	\$ 0.31

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

2. During the fourth quarter of 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the selected consolidated quarterly information for Q2 and Q3 2021 presented above, resulted in adjustments. The changes increased sales by \$1.0 million and \$1.8 million, and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$77 thousand and \$257 thousand, in the second quarter and third quarters of 2021, respectively. The change was not applied to the 2020 quarterly information as the impact is not material.

Results are impacted by seasonality. Harvest activity is highest during the winter months, when the ground is frozen, providing a solid base for the harvesting and hauling equipment. There is a significant decrease in activity during the spring when the ground thaws. Harvesting activity resumes in the early summer when the ground dries and continues through the fall.

Net income can be significantly impacted by non-cash items such as fluctuations in foreign exchange and the fair value adjustment of the Company's timberlands which are revalued at each reporting period. Net income for the fourth quarter of 2020 includes a fair value adjustment of \$8.1 million compared to \$4.2 million in the same period of the 2021, as well as a non-cash unrealized foreign exchange gain on long-term debt of \$5.3 million compared to \$0.1 million in the same period of 2021. Similarly, the third quarter of 2021 includes a non-cash unrealized foreign exchange loss on long term debt of \$3.1 million compared to a gain of \$2.2 million in the prior year period. Effective January 1, 2022, Acadian commenced accounting for its U.S. dollar-denominated debt as a net investment hedge of its U.S. subsidiary, which resulted in the application of hedge accounting. This resulted in the unrealized foreign exchange loss on Acadian's U.S. dollar-denominated debt of \$3.5 million being recorded in other comprehensive income rather than through profit and loss for the second quarter of 2022.

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 audited 2021 consolidated financial statements.

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

There were no related party transactions during the second quarter.

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") which expire in 2026, subject to a five-year extension at the option of Twin Rivers, and the provision of timber services under a Crown License Agreement at the direction of Twin Rivers with a term equal to the term of the Crown License, including any renewal terms.

The table below summarizes the Company's long term debt obligations as at June 25, 2022:

(CAD thousands)	Total	Payments Due by Period			
		Remainder 2022	1 to 3 Years (2023-2025)	4 to 5 Years (2026-2027)	After 5 Years (>2027)
Term facilities					
Tranche due March 6, 2025 ¹	\$ 19,076	—	19,076	—	—
Tranche due March 6, 2025 ¹	22,309	—	22,309	—	—
Tranche due March 6, 2027 ¹	41,386	—	—	41,386	—
Tranche due March 6, 2030 ¹	20,693	—	—	—	20,693
	\$103,464	\$ —	\$ 41,385	\$ 41,386	\$ 20,693
Interest payments	\$ 13,180	\$ 1,456	\$ 7,796	\$ 2,596	\$ 1,332

1. Represents principal of the U.S. dollar denominated term facilities with a U.S. to Canadian dollar conversion rate of 1.2933 and excludes unamortized deferred financing costs.

RISK FACTORS

Risk factors are discussed in the Company's MD&A for the year ended December 31, 2021.

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 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. Forward-looking information is included in this MD&A and includes statements made in the section entitled “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. 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. Actual results may vary. These forward-looking statements include, but are not limited to:

- Expectations regarding product demand, pricing and end use markets, including expectations for U.S. housing starts, which may be impacted by changes in interest rates, U.S. population demographics and the inventory of homes for sale. Expectations regarding product demand are based on anticipated market conditions, anticipated regional inventory levels of key customers, and the economic situation of key customers. Estimates for U.S. housing starts are based on forecasts published by major financial institutions.

Other risks and factors are discussed under the heading “Risk Factors” in this MD&A and in each of the Annual Information Form dated March 25, 2022 and the Management Information Circular dated March 25, 2022 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. 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 based on information currently available to management 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 CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

<i>As at</i> <i>(CAD thousands)</i>	Note	June 25, 2022	December 31, 2021
Assets			
Current assets			
Cash		\$ 6,791	\$ 7,316
Accounts receivable and other assets		5,866	8,386
Current income taxes receivable		—	104
Inventory		726	1,450
		13,383	17,256
Timber	3	400,798	394,063
Land, roads, and other fixed assets		100,073	99,183
Intangible asset		6,140	6,140
Total assets		\$ 520,394	\$ 516,642
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 6,266	\$ 8,800
Current income taxes payable		421	—
Dividends payable to shareholders		4,856	4,839
		11,543	13,639
Long-term debt	4	102,988	100,888
Deferred income tax liabilities, net		113,594	110,630
Total liabilities		228,125	225,157
Shareholders' equity	5	292,269	291,485
Total liabilities and shareholders' equity		\$ 520,394	\$ 516,642

See accompanying notes to 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 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Sales		\$ 16,493	\$ 19,403	\$ 43,124	\$ 45,295
Operating costs and expenses					
Cost of sales		11,433	13,181	29,102	30,628
Selling, administration and other		1,828	2,058	3,894	3,698
Silviculture		485	260	486	263
Depreciation and amortization		63	64	120	126
		13,809	15,563	33,602	34,715
Operating income		2,684	3,840	9,522	10,580
Interest expense, net		(763)	(727)	(1,500)	(1,482)
Other items					
Fair value adjustments and other		4,430	2,055	4,158	2,480
Unrealized exchange gain on long-term debt		—	2,288	—	3,504
Gain on sale of timberlands and other fixed assets		—	—	14	72
Income before income taxes		6,351	7,456	12,194	15,154
Income tax expense	9	(1,835)	(1,481)	(3,520)	(3,355)
Net income		\$ 4,516	\$ 5,975	\$ 8,674	\$ 11,799
Net income per share – basic and diluted	6	\$ 0.27	\$ 0.36	\$ 0.52	\$ 0.71

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Net income	\$ 4,516	\$ 5,975	\$ 8,674	\$ 11,799
Other comprehensive income / (loss)				
Items that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain / (loss)	1,232	(3,185)	679	(4,618)
Comprehensive income	\$ 5,748	\$ 2,790	\$ 9,353	\$ 7,181

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

Six Months Ended June 25, 2022 <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balances as at December 31, 2021		\$ 139,394	\$ 85,953	\$ 41,638	\$ 24,500	\$ 291,485
Changes during the period						
Net income		—	8,674	—	—	8,674
Other comprehensive gain		—	—	—	679	679
Shareholders' dividends declared	10	—	(9,695)	—	—	(9,695)
Common shares issued - DRIP	5	1,126	—	—	—	1,126
Balances as at June 25, 2022		\$ 140,520	\$ 84,932	\$ 41,638	\$ 25,179	\$ 292,269

Six Months Ended June 26, 2021 <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balances as at December 31, 2020		\$ 139,394	\$ 86,626	\$ 42,121	\$ 25,100	\$ 293,241
Changes during the period						
Net income		—	11,799	—	—	11,799
Other comprehensive loss		—	—	—	(4,618)	(4,618)
Shareholders' dividends declared	10	—	(9,678)	—	—	(9,678)
Balances as at June 26, 2021		\$ 139,394	\$ 88,747	\$ 42,121	\$ 20,482	\$ 290,744

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Cash provided by (used for):				
Operating activities				
Net income	\$ 4,516	\$ 5,975	\$ 8,674	\$ 11,799
Adjustments to net income:				
Income tax expense	1,835	1,481	3,520	3,355
Depreciation and amortization	63	64	120	126
Fair value adjustments and other	(4,430)	(2,055)	(4,158)	(2,480)
Unrealized exchange gain on long-term debt	—	(2,288)	—	(3,504)
Gain on sale of timberlands and other fixed assets	—	—	(14)	(72)
Income taxes paid	(347)	(2,118)	(683)	(532)
Net change in non-cash working capital balances and other	1,856	519	657	(1,337)
	3,493	1,578	8,116	7,355
Financing activities				
Dividends paid to shareholders	(3,713)	(4,839)	(8,552)	(9,678)
Investing activities				
Additions to timber, land, roads, and other fixed assets	(39)	(88)	(103)	(157)
Proceeds from sale of timberlands and other fixed assets	—	—	14	75
	(39)	(88)	(89)	(82)
Decrease in cash during the period	(259)	(3,349)	(525)	(2,405)
Cash, beginning of period	7,050	11,202	7,316	10,258
Cash, end of period	\$ 6,791	\$ 7,853	\$ 6,791	\$ 7,853

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

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Accounts receivable and other assets	\$ 3,477	\$ 1,047	\$ 2,520	\$ 910
Inventory	2,212	2,061	724	343
Accounts payable and accrued liabilities	(2,992)	(1,526)	(2,534)	(2,403)
Other	(841)	(1,063)	(53)	(187)
	\$ 1,856	\$ 519	\$ 657	\$ (1,337)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 subsidiaries (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 90 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 June 25, 2022, Macer Forest Holdings Inc. owns 7,570,606 shares representing approximately 45% of the outstanding shares of the Company.

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 (“IASB”) and using the accounting policies adopted and disclosed in Note 2 of Acadian’s audited 2021 consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with Acadian’s audited annual consolidated financial statements for the fiscal year ended December 31, 2021.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of Acadian on July 27, 2022.

Financial Instruments – Hedge Accounting

Effective January 1, 2022, Acadian has designated a hedging relationship between part of the net investment in its Maine subsidiary and its U.S. dollar-denominated debt. At inception of designated hedging relationships, Acadian documents the risk management objective and strategy for undertaking the hedge. Acadian also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

When a financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in foreign exchange gains and losses is recognized in other comprehensive income (“OCI”) and presented in Currency Translation within equity. Any ineffective portion of the changes in foreign exchange gains and losses is recognized immediately in profit or loss. The amount recognized in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation.

Adoption of New Accounting Standards

Amendment to IAS 41 Agriculture

The amendment to IAS 41 Agriculture removes the requirement for an entity to exclude taxation cash flows when calculating the fair value of its biological assets. An entity is permitted to use post-tax cash flows and a post-tax rate to discount those cash flows. The amendment is effective for annual periods beginning on or after January 1, 2022. The adoption of this amendment did not have a material impact on the consolidated financial statements.

3. TIMBER

<i>(CAD thousands)</i>		
Balance as at December 31, 2020	\$	388,005
Disposals		(17)
Gains arising from growth		28,373
Reduction arising from harvest		(26,209)
Gain from fair value price and other changes		4,419
Foreign exchange		(508)
Balance as at December 31, 2021	\$	394,063
Disposals		—
Gains arising from growth		16,204
Reduction arising from harvest		(11,922)
Foreign exchange		2,453
Balance as at June 25, 2022	\$	400,798

Timber is measured at fair value. During the year, adjustments are made to standing timber assets to reflect the change in fair value due to gains arising from growth and reductions arising from harvest. Average selling price less costs of harvesting and selling is applied to expected volume growth to calculate gains arising from growth, and to the harvested volume to calculate reductions arising from harvest. On an annual basis, the fair value of standing timber assets is reassessed with the assistance of licensed independent third-party appraisers. Fair value adjustments are recognized in net income.

4. LONG TERM DEBT

<i>As at</i>		
<i>(CAD thousands)</i>	June 25, 2022	December 31, 2021
Term facilities	\$ 103,464	\$ 101,424
Less:		
Deferred debt issuance costs	(476)	(536)
Total	\$ 102,988	\$ 100,888

Acadian has term credit facilities with MetLife Insurance Company, with maturity dates ranging from March 6, 2025, to March 6, 2030. These credit facilities include a revolving credit facility of up to U.S. \$10.0 million (the "Revolving Facility") for general corporate purposes and term credit facilities of U.S. \$80.0 million (the "Term Facilities"). The Term Facilities bear interest at rates ranging from 2.7% to 3.0%. The Revolving Facility bears interest at floating rates based on 90-day LIBOR plus applicable margin. Upon the decommissioning of LIBOR, interest is anticipated to be based on the Secured Overnight Financing Rate. Floating interest rates give rise to interest rate risk as net income and cash flows may be negatively impacted by fluctuations in interest rates. There are no scheduled repayments of principal required prior to the maturity dates of the Term Facilities.

As at June 25, 2022, Acadian had borrowed U.S. \$80.0 million (December 31, 2021 – U.S. \$80.0 million) under the Term Facilities and U.S. \$nil (December 31, 2021 – \$nil) under the Revolving Facility. U.S. \$1.7 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 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 25, 2022, and December 31, 2021.

Acadian has a \$2.0 million Canadian dollar denominated revolving credit facility with a major Canadian bank for general corporate purposes. This facility bears interest at floating rates based on bank prime rates plus applicable margin and is due on demand. No amounts were drawn on this facility as at June 25, 2022, or December 31, 2021.

The fair value of the Term Facilities as at June 25, 2022 is \$96.8 million (December 31, 2021 – \$103.3 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.

5. SHAREHOLDERS' EQUITY

Acadian is authorized to issue an unlimited number of common shares. The common shares have no stated par value.

During the first quarter of the year, Acadian implemented a dividend reinvestment plan ("DRIP") effective with eligible shareholders of record on March 31, 2022, whereby Canadian resident shareholders may elect to automatically have their dividends reinvested in additional shares. Shares issued under the DRIP are issued directly from the treasury of the Company using a price equal to the volume-weighted average trading price of the Company's shares on the TSX for the five trading days immediately preceding the relevant dividend payment date, which is typically on or about the 15th of April, July, October and January. During the three months and six months ended June 25, 2022, Acadian issued 58,850 common shares in accordance with the DRIP.

On February 9, 2022, the Company filed a notice of intention with the TSX to purchase for cancellation up to 834,345 common shares during the period commencing February 14, 2022 and ending February 13, 2023, representing 5% of the 16,686,916 common shares outstanding as of February 3, 2022. During the three months and six months ended June 25, 2022, the Company did not purchase any of its common shares.

The Company's issued and outstanding common shares are as follows:

	Number of Shares	Share Capital (CAD thousands)
Balance as at December 31, 2020	16,686,916	\$ 139,394
Balance as at December 31, 2021	16,686,916	\$ 139,394
Common shares issued - DRIP	58,850	1,126
Balance as at June 25, 2022	16,745,766	\$ 140,520

6. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. There are no dilutive potential shares.

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Weighted average number of common shares – basic and diluted	16,732,832	16,686,916	16,710,792	16,686,916

7. 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: NB Timberlands and Maine Timberlands. Adjusted EBITDA is used to evaluate the operating performance of reportable segments. Adjusted EBITDA is defined as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads and depreciation and amortization.

Sales, Adjusted EBITDA and assets by reportable segments are as follows:

Three Months Ended June 25, 2022 (CAD thousands)	Total	NB Timberlands	Maine Timberlands
Sales			
Softwood	\$ 5,685	\$ 4,023	\$ 1,662
Hardwood	6,768	5,641	1,127
Biomass	158	152	6
Timber services and other sales	3,882	3,728	154
Total sales	16,493	13,544	2,949
Operating costs and expenses			
Cost of sales	11,433	9,334	2,099
Selling, administration and other	1,501	1,015	486
Silviculture	485	485	—
Depreciation and amortization	63	39	24
	13,482	10,873	2,609
	3,011	2,671	340
Corporate and other expenses	(327)		
Operating income	2,684		
Interest expense, net	(763)		
Fair value adjustments and other	4,430		
Income before income taxes	\$ 6,351		

Three Months Ended June 25, 2022 (CAD thousands)	NB Timberlands	Maine Timberlands
Operating income	\$ 2,671	\$ 340
Add: Depreciation and amortization	39	24
Adjusted EBITDA	\$ 2,710	\$ 364

As at June 25, 2022 (CAD thousands)	NB Timberlands	Maine Timberlands
Non-current assets	\$ 336,047	\$ 170,881
Total assets	\$ 345,252	\$ 172,942

<i>Three Months Ended June 26, 2021</i>		NB		Maie
<i>(CAD thousands)</i>		Total	Timberlands	Timberlands
Sales				
Softwood	\$ 5,319	\$ 3,464	\$ 1,855	
Hardwood	8,028	6,476	1,552	
Biomass	881	878	3	
Timber services and other sales	5,175	5,045	130	
Total sales	19,403	15,863	3,540	
Operating costs and expenses				
Cost of sales	13,181	10,572	2,609	
Selling, administration and other	1,622	1,115	507	
Silviculture	260	260	—	
Depreciation and amortization	64	38	26	
	15,127	11,985	3,142	
	4,276	3,878	398	
Corporate and other expenses	(436)			
Operating income	3,840			
Interest expense, net	(727)			
Fair value adjustments and other	2,055			
Unrealized exchange gain on long-term debt	2,288			
Income before income taxes	\$ 7,456			

<i>Three Months Ended June 26, 2021</i>		NB		Maie
<i>(CAD thousands)</i>		Timberlands	Timberlands	Timberlands
Operating income		\$ 3,878	\$ 398	
Add: Depreciation and amortization		38	26	
Adjusted EBITDA		\$ 3,916	\$ 424	

<i>As at December 31, 2021</i>		NB		Maie
<i>(CAD thousands)</i>		Timberlands	Timberlands	Timberlands
Non-current assets		\$ 331,606	\$ 167,703	
Total assets		\$ 343,251	\$ 171,971	

Six Months Ended June 25, 2022			
(CAD thousands)			
	Total	NB Timberlands	Maine Timberlands
Sales			
Softwood	\$ 20,646	\$ 12,197	\$ 8,449
Hardwood	12,999	10,146	2,853
Biomass	1,318	1,308	10
Timber services and other sales	8,161	7,902	259
Total sales	43,124	31,553	11,571
Operating costs and expenses			
Cost of sales	29,102	21,633	7,469
Selling, administration and other	3,056	2,070	986
Silviculture	486	486	—
Depreciation and amortization	120	74	46
	32,764	24,263	8,501
	10,360	7,290	3,070
Corporate and other expenses	(838)		
Operating income	9,522		
Interest expense, net	(1,500)		
Fair value adjustments and other	4,158		
Gain on sale of timberlands and other fixed assets	14		
Income before income taxes	\$ 12,194		

Six Months Ended June 25, 2022		
(CAD thousands)		
	NB Timberlands	Maine Timberlands
Operating income	\$ 7,290	\$ 3,070
Add: Depreciation and amortization	74	46
Add: Gain on sale of timberlands and other fixed assets	14	—
Adjusted EBITDA	\$ 7,378	\$ 3,116

<i>Six Months Ended June 26, 2021</i>			
<i>(CAD thousands)</i>			
	Total	NB Timberlands	Maine Timberlands
Sales			
Softwood	\$ 16,604	\$ 9,031	\$ 7,573
Hardwood	15,592	12,287	3,305
Biomass	2,095	2,087	8
Timber services and other sales	11,004	10,779	225
Total sales	45,295	34,184	11,111
Operating costs and expenses			
Cost of sales	30,628	22,890	7,738
Selling, administration and other	3,029	2,038	991
Silviculture	263	261	2
Depreciation and amortization	126	75	51
	34,046	25,264	8,782
	11,249	8,920	2,329
Corporate and other expenses	(669)		
Operating income	10,580		
Interest expense, net	(1,482)		
Fair value adjustments and other	2,480		
Unrealized exchange gain on long-term debt	3,504		
Gain on sale of timberlands and other fixed assets	72		
Income before income taxes	\$ 15,154		

<i>Six Months Ended June 26, 2021</i>		
<i>(CAD thousands)</i>		
	NB Timberlands	Maine Timberlands
Operating income	\$ 8,920	\$ 2,329
Add: Depreciation and amortization	75	51
Add: Gain on sale of timberlands and other fixed assets	—	72
Adjusted EBITDA	\$ 8,995	\$ 2,452

Approximately 47% and 36% of total sales during the three months and six months ended June 25, 2022 were originated with customers domiciled in the U.S. and the balance in Canada (June 26, 2021 – 46% and 36%). Approximately 40% and 40% of total sales were denominated in U.S. dollars during the same period (June 26, 2021 – 34% and 37%).

Acadian sells its products to many forest products companies in North America. For the three months and six months ended June 25, 2022, sales to the largest and next largest customer accounted for 15% and 15%, and 18% and 12%, respectively (June 26, 2021 – 17% and 14%, and 15% and 12% respectively).

8. FINANCIAL INSTRUMENTS

Financial Risk management - Foreign Currency Risk

Effective January 1, 2022, Acadian has designated a hedging relationship between part of the net investment in its Maine subsidiary and its U.S. dollar-denominated debt, which mitigates the foreign currency risk arising from the subsidiary's net assets. The long-term debt is designated as a hedging instrument for the changes in the value of the net investment that is attributable to changes in the Canadian dollar/U.S. dollar spot rate.

To assess hedge effectiveness, Acadian determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in the foreign operation due to movements in the spot rate (the offset method). Acadian's policy is to hedge the net investment only to the extent of the debt principal.

There was no ineffectiveness to be recorded from the hedge during the quarter.

The change in the carrying amount of long-term debt as a result of foreign currency movements during the period, as recognized in OCI, and the change in the hedged item, was \$3.5 million and \$2.0 million for the three months and six months ended June 25, 2022.

9. INCOME TAXES

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

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Current income tax expense	\$ 100	\$ 179	\$ 1,223	\$ 1,285
Deferred income tax expense	1,735	1,302	2,297	2,070
Total income tax expense	\$ 1,835	\$ 1,481	\$ 3,520	\$ 3,355

Acadian's effective tax rate is different from the domestic statutory income tax rate due to the differences set out below:

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Income taxes at statutory rate	\$ 1,842	\$ 2,140	\$ 3,536	\$ 4,372
Foreign tax rate differential	(7)	(10)	(16)	(20)
Non-taxable portion of gains	—	(318)	—	(510)
Unrecognized tax attributes (benefit of prior years)	—	(331)	—	(487)
Total income tax expense	\$ 1,835	\$ 1,481	\$ 3,520	\$ 3,355

10. DIVIDENDS TO SHAREHOLDERS

Acadian pays quarterly dividends to the extent determined prudent by the Board of Directors. Total dividends declared for the three months and six months ended June 25, 2022 were \$4.9 million and \$9.7 million, respectively (June 26, 2021 – \$4.8 million and \$9.7 million) or \$0.29 and \$0.58 per share (June 26, 2021 – \$0.29 and \$0.58 per share).

11. SUBSEQUENT EVENT

On July 15, 2022, Acadian issued 66,591 common shares in accordance with the DRIP.

12. COMPARATIVE INFORMATION

During the three months ended December 31, 2021, the Company determined that certain timber services contracts should be accounted for on a gross basis rather than a net basis, and that the timing of recognition should be as the services are delivered and not when all services have been completed. These changes, when applied to the financial statements for the three months and six months ended June 26, 2021, resulted in adjustments. The changes increased sales by \$1.0 million, and increased net income by \$77 thousand. The changes are not considered material.

BOARD AND MANAGEMENT

BOARD OF DIRECTORS

Malcolm Cockwell
Managing Director
Haliburton Forest

Bruce Robertson
Vice President
The Woodbridge Company
Limited

Karen Oldfield
Interim President and CEO
Nova Scotia Health

Heather Fitzpatrick
President and CEO
Halmont Properties
Corporation

Erika Reilly
Corporate Director

Adam Sheparsi
President and
Chief Executive Officer
Acadian Timber Corp.

MANAGEMENT

Adam Sheparsi
President and
Chief Executive Officer
Acadian Timber Corp.

Susan Wood
Chief Financial Officer
Acadian Timber Corp.

CORPORATE AND SHAREHOLDER INFORMATION

HEAD OFFICE

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

Please direct your inquiries to:
Susan Wood
Chief Financial Officer
t. 506-737-2345
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:

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

SHARE INFORMATION

Toronto Stock Exchange: ADN
Fully Diluted Shares Outstanding (June 25, 2022): 16,745,766
Targeted 2022 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

The Management Discussion and Analysis 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. Forward-looking information is included in this MD&A and includes statements made in the section entitled "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. 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. Actual results may vary. These forward-looking statements include, but are not limited to: expectations regarding product demand and end use markets, including expectations for U.S. housing starts, which may be impacted by changes in interest rates, U.S. population demographics and the inventory of homes for sale; expectations regarding product demand are based on anticipated market conditions, anticipated regional inventory levels of key customers, and the economic situation of key customers; and estimates for U.S. housing starts are based on forecasts published by major financial institutions. Other risks and factors are discussed under the heading "Risk Factors" in this MD&A and in each of the Annual Information Form dated March 25, 2022 and the Management Information Circular dated March 25, 2022 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. 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 based on information currently available to management 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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