



ACADIAN TIMBER CORP.

Q3 2022 INTERIM REPORT

September 24, 2022

# Q3 2022 INTERIM REPORT

## LETTER TO SHAREHOLDERS

### Overview

Acadian Timber Corp. (“Acadian” or the “Company”) generated solid financial results for the three months ended September 24, 2022 (the “third quarter”), benefiting from continued strong demand for its products. Volumes were lower as compared to the same quarter of 2021 as a result of limited contractor availability but the lower volumes were substantially offset by stronger prices across all products, excluding biomass.

Acadian generated \$3.3 million of Free Cash Flow<sup>1</sup> and declared dividends of \$4.9 million to shareholders during the third quarter. Our balance sheet continues to be solid with \$17.1 million of net liquidity<sup>1</sup> as at September 24, 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 two recordable safety incidents during the quarter among contractors and none among employees. The individuals have made full recoveries and have 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 \$23.6 million, compared to \$24.5 million in the prior year period, with sales volume, excluding biomass, down 15% primarily as a result of limited contractor availability in the third quarter. Weighted average selling price, excluding biomass, increased 11% 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 EBITDA<sup>1</sup> was \$4.5 million during the third quarter compared to \$5.4 million in the prior year period, reflecting lower operating income and lower gain on sale of timberlands and other fixed assets. Adjusted EBITDA margin<sup>1</sup> for the quarter was 19% compared to 22% in the prior year period.

Net income for the third quarter totaled \$4.8 million, or \$0.29 per share, compared to net income of \$0.3 million, or \$0.02 per share in the same period of 2021. The increase in net income from the prior year period is due mainly to increased fair value adjustments and changes in the non-cash unrealized foreign exchange gains or losses on long term debt offset by lower operating income and lower gain on sales of timberlands and other fixed assets.

### Carbon Credit Project<sup>2</sup>

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.

The initial model for the project has been completed and 1.6 million credits have been estimated on a preliminary basis over a ten-year reporting period, with 0.7 million of these credits expected to be registered on the American Carbon Registry in the fourth quarter of 2022. There is the potential for sales to be realized immediately following successful registration.

Preliminary credit volumes have been submitted to third-party verifiers, who will audit the model. Accordingly, the final issued volumes could vary from the estimates presented. The impact to Acadian’s financial results is subject to the successful marketing of the credits and to the timing of, and prices obtained from, contracts negotiated with third parties, which are not yet in place.

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

The North American economic outlook remains uncertain. With interest rates rising, as well as housing sales and price growth slowing, consensus forecast has been lowered to approximately 1.55 million U.S. housing starts in 2022 and 1.40 million in 2023 as compared to 1.60 million in 2021. These estimates, however, are still above historical levels. Accordingly, we remain

confident that the stability of the northeast forestry sector combined with the long-term demand for new homes and repair and remodel activity will support the demand for, and pricing of, our products.

Though likely to decelerate, inflation is expected to remain a challenge in the near term and to continue to exert pressure on our financial results through increased contractor rates and fuel surcharges that we pay our contractors. The recovery of some of the incremental cost from our customers beginning in the second quarter is expected to continue to mitigate some of this impact.

Although softwood lumber pricing has decreased from recent highs to more normalized prices, demand for softwood sawlogs remains stable in the regions in which Acadian operates and, therefore, strong pricing is expected through the remainder of the year. The implementation of a new Crown timber royalty rate system as announced during the quarter by the Province of New Brunswick will not have an immediate material direct impact to Acadian's net earnings, 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. Demand and pricing for high grade hardwood sawlogs are starting to be pressured by some uncertainty in the end use hardwood markets. However, as we exit the third quarter, Acadian expects stable demand and pricing for its hardwood sawlogs to close out 2022.

Hardwood and softwood pulpwood markets have continued improving and are expected to remain at improved levels throughout the remainder of 2022 and into 2023.

### Looking Ahead

Despite the uncertain economic outlook, we look forward to finishing the year with solid financial and operating performance, being supported by a strong balance sheet, diverse markets, and a dedicated, highly capable team. We continue to actively work with our contractors to increase deliveries to our customers for the remainder of the year and into the winter harvest season. 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

October 26, 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)*

October 26, 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 nine months ended September 24, 2022 (herein referred to as the "third quarter") compared to the three months and nine months ended September 25, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the third quarter and the audited annual consolidated financial statements and the related MD&A for the fiscal year ended December 31, 2021.

Our third 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 October 26, 2022. Additional information is available on Acadian's website at [www.acadiantimber.com](http://www.acadiantimber.com) and on SEDAR at [www.sedar.com](http://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 nine months ended September 24, 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 nine months ended September 24, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## REVIEW OF OPERATIONS

### Summary of Third Quarter Results

The table below summarizes operating and financial data for Acadian:

<i>(CAD thousands, except per share information)</i>	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021 <sup>1</sup>	September 24, 2022	September 25, 2021 <sup>1</sup>
Sales volume (000s m <sup>3</sup> )	229.4	270.9	687.3	772.2
Sales	\$ 23,594	\$ 24,488	\$ 66,718	\$ 69,783
Operating income	4,406	5,011	13,928	15,591
Net income	4,831	344	13,505	12,143
Adjusted EBITDA <sup>2</sup>	\$ 4,480	\$ 5,394	\$ 14,136	\$ 16,172
Adjusted EBITDA margin <sup>2</sup>	19%	22%	21%	23%
Free Cash Flow <sup>2</sup>	\$ 3,260	\$ 3,853	\$ 10,151	\$ 11,784
Dividends declared	4,876	4,840	14,571	14,518
Dividends paid in cash	3,721	4,840	12,281	14,518
Payout Ratio <sup>2</sup>	150%	126%	144%	123%
Payout Ratio with DRIP <sup>2</sup>	114%	n/a	121%	n/a
Per share – basic and diluted				
Net income	\$ 0.29	\$ 0.02	\$ 0.81	\$ 0.73
Free Cash Flow <sup>2</sup>	0.19	0.23	0.61	0.71
Dividends declared	0.29	0.29	0.87	0.87
Book value	17.55	17.41	17.55	17.41
Common shares outstanding <sup>3</sup>	16,812,357	16,686,916	16,812,357	16,686,916
Weighted average shares outstanding	16,797,722	16,686,916	16,740,531	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 originally presented for the third quarter of 2021, resulted in adjustments. The changes increased sales by \$1.8 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$257 thousand in the third quarter of 2021.

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

3. As at October 26, 2022 there were 16,885,424 common shares outstanding.

During the third quarter, Acadian generated sales of \$23.6 million, compared to \$24.5 million in the prior year period. Weighted average selling price, excluding biomass, increased 11% 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 15% primarily as a result of limited contractor availability in the third quarter. Biomass sales volume decreased 21% due to unfavourable market conditions.

Operating costs and expenses were \$19.2 million during the third quarter, compared to \$19.5 million during the prior year period. This year-over-year decrease reflects lower harvesting and timber services activity offset by higher contractor costs and fuel prices. Weighted average variable costs, excluding biomass, increased 14% primarily as a result of higher contractor and fuel costs.

Net income for the third quarter totaled \$4.8 million, or \$0.29 per share, compared to \$0.3 million, or \$0.02 per share, in the same period of 2021. Lower operating income and gain on sales of timberlands and other fixed assets in the third quarter of 2022 were offset by higher fair value adjustments on timberlands as compared to the prior year period, and changes in the non-cash unrealized foreign exchange loss on long-term debt. As a result of the application of hedge accounting effective January 1, 2022, the unrealized foreign exchange gains and losses are now recorded in other comprehensive income.

Adjusted EBITDA was \$4.5 million during the third quarter compared to \$5.4 million in the prior year period. Adjusted EBITDA margin for the quarter was 19% compared to 22% in the prior year period. Free Cash Flow was \$3.3 million, being \$0.6 million lower than the prior year period.

During the first nine months of 2022, Acadian generated sales of \$66.7 million compared to \$69.8 million in the prior year period. The weighted average selling price, excluding biomass, increased 11%, however, sales volume, excluding biomass, decreased 9%. Operating costs and expenses of \$52.8 million were \$1.4 million lower year-over-year. Adjusted EBITDA of \$14.1 million was \$2.1 million lower compared to the prior year period.

For the nine months ended September 24, 2022, net income was \$13.5 million, or \$0.81 per share, which represents an increase of \$1.4 million compared to the prior year period. Lower operating income and gain on sales of timberlands and other fixed assets were offset by higher fair value adjustments on timberlands as compared to the prior year period.

## 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		Nine Months Ended	
	September 24, 2022	September 25, 2021 <sup>1</sup>	September 24, 2022	September 25, 2021 <sup>1</sup>
Net income	\$ 4,831	\$ 344	\$ 13,505	\$ 12,143
Add / (deduct):				
Interest expense, net	795	748	2,295	2,230
Income tax expense	1,807	1,259	5,327	4,614
Depreciation and amortization	74	66	194	192
Fair value adjustments and other	(3,027)	(111)	(7,185)	(2,591)
Unrealized exchange loss / (gain) on long-term debt	—	3,088	—	(416)
Adjusted EBITDA <sup>2</sup>	\$ 4,480	\$ 5,394	\$ 14,136	\$ 16,172
Add / (deduct):				
Interest paid on debt, net	(765)	(717)	(2,204)	(2,125)
Additions to timber, land, roads, and other fixed assets	(148)	(148)	(251)	(305)
Gain on sale of timberlands and other fixed assets	—	(317)	(14)	(389)
Proceeds from sale of timberlands and other assets	—	339	14	414
Current income tax expense	(307)	(698)	(1,530)	(1,983)
Free Cash Flow <sup>2</sup>	\$ 3,260	\$ 3,853	\$ 10,151	\$ 11,784
Dividends declared	4,876	4,840	14,571	14,518
Dividends paid in cash	3,721	4,840	12,281	14,518
Payout Ratio <sup>2</sup>	150%	126%	144%	123%
Payout Ratio with DRIP <sup>2</sup>	114%	n/a	121%	n/a

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 originally presented for the third quarter of 2021, resulted in adjustments. The changes increased sales by \$1.8 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$257 thousand in the third quarter of 2021.
2. Non-IFRS Measure. See "Non-IFRS Measures" on page 3 of this report.

## 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 September 24, 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, which represents the amount of dividends declared as a percentage of Free Cash Flow generated, was 150% during the third quarter, and the Payout Ratio with DRIP, which represents the amount of dividends paid in cash as a percentage of Free Cash Flow generated, was 114%.

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 and nine months ended September 24, 2022, Acadian issued 66,591 and 125,441 common shares, respectively 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 and softwood pulpwood strengthened due to higher regional demand. Acadian's sales volume, excluding biomass, of 204,400 m<sup>3</sup> was down 15% compared to the same period in 2021, however, due to limited contractor availability.

Strong prices across all products drove an 11% increase in weighted average selling price, excluding biomass. Pricing for softwood sawlogs and hardwood sawlogs increased 14% and 18%, respectively, due to favourable market dynamics. Softwood pulpwood and hardwood pulpwood pricing increased 12% and 20% relative to the same period in 2021, driven by strong regional demand. Third quarter prices also include partial recovery of additional fuel costs from customers. Biomass pricing increased 17% year-over-year, as a result of increased demand.

## Segmented Results of Operations

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

<b>Three Months Ended September 24, 2022</b>				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m <sup>3</sup> )	<b>191.8</b>	<b>37.6</b>	—	<b>229.4</b>
Sales	\$ <b>19,917</b>	\$ <b>3,677</b>	\$ —	\$ <b>23,594</b>
Adjusted EBITDA <sup>2</sup>	\$ <b>4,577</b>	\$ <b>234</b>	\$ <b>(331)</b>	\$ <b>4,480</b>
Adjusted EBITDA margin <sup>2</sup>	<b>23%</b>	<b>6%</b>	<b>n/a</b>	<b>19%</b>

<b>Three Months Ended September 25, 2021<sup>1</sup></b>				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m <sup>3</sup> )	209.2	61.7	—	270.9
Sales	\$ 19,337	\$ 5,151	\$ —	\$ 24,488
Adjusted EBITDA <sup>2</sup>	\$ 4,422	\$ 1,337	\$ (365)	\$ 5,394
Adjusted EBITDA margin <sup>2</sup>	23%	26%	n/a	22%

<b>Nine Months Ended September 24, 2022</b>				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m <sup>3</sup> )	<b>518.4</b>	<b>168.9</b>	—	<b>687.3</b>
Sales	\$ <b>51,470</b>	\$ <b>15,248</b>	\$ —	\$ <b>66,718</b>
Adjusted EBITDA <sup>2</sup>	\$ <b>11,955</b>	\$ <b>3,350</b>	\$ <b>(1,169)</b>	\$ <b>14,136</b>
Adjusted EBITDA margin <sup>2</sup>	<b>23%</b>	<b>22%</b>	<b>n/a</b>	<b>21%</b>

<b>Nine Months Ended September 25, 2021<sup>1</sup></b>				
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m <sup>3</sup> )	564.6	207.6	—	772.2
Sales	\$ 53,521	\$ 16,262	\$ —	\$ 69,783
Adjusted EBITDA <sup>2</sup>	\$ 13,417	\$ 3,789	\$ (1,034)	\$ 16,172
Adjusted EBITDA margin <sup>2</sup>	25%	23%	n/a	23%

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 originally presented for the third quarter of 2021, resulted in adjustments. The changes increased sales by \$1.8 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$257 thousand in the third 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 third quarter of 2022, Acadian's New Brunswick operations experienced one recordable safety incident among contractors and no recordable incidents 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		Nine Months Ended	
	September 24, 2022	September 25, 2021 <sup>1</sup>	September 24, 2022	September 25, 2021 <sup>1</sup>
Harvest (000s m <sup>3</sup> )				
Softwood	103.7	98.6	280.1	237.8
Hardwood	64.9	80.3	175.6	240.1
Biomass	23.0	31.7	52.5	82.7
Total	191.6	210.6	508.2	560.6
Sales (000s m <sup>3</sup> )				
Softwood	105.9	99.3	287.2	240.7
Hardwood	62.9	78.2	178.7	241.2
Biomass	23.0	31.7	52.5	82.7
Total	191.8	209.2	518.4	564.6
Sales Mix				
Softwood	55%	47%	56%	43%
Hardwood	33%	37%	34%	43%
Biomass	12%	16%	10%	14%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 7,231	\$ 6,420	\$ 19,428	\$ 15,451
Hardwood	5,580	5,718	15,726	18,005
Biomass	1,064	1,162	2,372	3,249
Total	13,875	13,300	37,526	36,705
Timber services and other	6,042	6,037	13,944	16,816
Sales	\$ 19,917	\$ 19,337	\$ 51,470	\$ 53,521
Adjusted EBITDA <sup>2</sup>	\$ 4,577	\$ 4,422	\$ 11,955	\$ 13,417
Adjusted EBITDA margin <sup>2</sup>	23%	23%	23%	25%

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 originally presented for the third quarter of 2021, resulted in adjustments. The changes increased sales by \$1.8 million and increased Adjusted EBITDA, Free Cash Flow and Net Income by \$257 thousand in the third quarter of 2021.

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

Sales for New Brunswick Timberlands were \$19.9 million compared to \$19.3 million during the prior year period. Sales volume, excluding biomass, decreased by 5% primarily due to limited contractor availability in the current period. Biomass sales volume decreased 27% as compared to the prior year period due to unfavourable market conditions.

The weighted average selling price, excluding biomass, for the third quarter was \$75.87 per m<sup>3</sup>, or 11% higher than the prior year period, as a result of strong sawlog and pulpwood prices, driven by strong demand, as well as fuel cost recovery from customers. Biomass pricing was up 26% year-over-year.

Operating costs and expenses were \$15.4 million during the third quarter, compared to \$15.0 million in the prior year period due to higher contractor costs and fuel prices, offset by lower harvesting activity and timber services activity. Weighted average variable costs, excluding biomass, increased 14% primarily as a result of higher contractor and fuel costs compared to the prior year period.

Adjusted EBITDA for the quarter was \$4.6 million compared to \$4.4 million in the prior year period and Adjusted EBITDA margin was 23% which is consistent with the prior year period.

During the first nine months of 2022, New Brunswick Timberlands' sales of \$51.5 million decreased 4% from the prior year period. The weighted average selling price, excluding biomass, increased 9%, however sales volume, excluding biomass, decreased 3% year-over-year. Operating costs and expenses of \$39.6 million during the first nine months of 2022 were \$0.6 million lower than the prior year period due lower harvesting activity, partially offset by higher contractor and fuel costs. Adjusted EBITDA was \$12.0 million compared to \$13.4 million in the first nine months of 2021, and Adjusted EBITDA margin decreased to 23% 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.

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

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

	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Harvest (000s m <sup>3</sup> )				
Softwood	24.6	44.6	121.2	148.2
Hardwood	11.9	18.9	39.6	55.8
Biomass	2.0	–	5.2	0.6
Total	38.5	63.5	166.0	204.6
Sales (000s m <sup>3</sup> )				
Softwood	24.6	44.7	121.2	148.2
Hardwood	11.0	17.0	42.5	58.8
Biomass	2.0	–	5.2	0.6
Total	37.6	61.7	168.9	207.6
Sales Mix				
Softwood	66%	72%	72%	71%
Hardwood	29%	28%	25%	28%
Biomass	5%	0%	3%	1%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 2,328	\$ 3,518	\$ 10,777	\$ 11,091
Hardwood	1,090	1,460	3,943	4,765
Biomass	3	2	13	10
Total	3,421	4,980	14,733	15,866
Timber services and other	256	171	515	396
Sales	\$ 3,677	\$ 5,151	\$ 15,248	\$ 16,262
Adjusted EBITDA <sup>1</sup>	\$ 234	\$ 1,337	\$ 3,350	\$ 3,789
Adjusted EBITDA margin <sup>1</sup>	6%	26%	22%	23%

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

Sales for Maine Timberlands during the third quarter totaled \$3.7 million compared to \$5.2 million in the prior year period. Sales volume, excluding biomass, decreased 42% reflecting limited contractor availability in the current year period.

The weighted average selling price, excluding biomass, in Canadian dollar terms was \$95.97 per m<sup>3</sup>, compared to \$80.87 per m<sup>3</sup> during the same period of 2021. In U.S dollar terms, the weighted average selling price, excluding biomass, was \$73.58 per m<sup>3</sup>, compared to \$64.30 per m<sup>3</sup> in 2021 with higher prices across all products benefiting from favourable market dynamics, as well as fuel cost recovery from customers.

Operating costs and expenses for the third quarter were \$3.5 million, compared to \$4.2 million during the same period in 2021, primarily due to lower harvesting activity offset by higher contractor costs and fuel prices. Weighted average variable costs, excluding biomass, increased 25% primarily as a result of higher contractor and fuel costs.

Adjusted EBITDA for the quarter was \$0.2 million compared to \$1.3 million in the prior year period, and Adjusted EBITDA margin was 6% compared to 26% in the prior year period, primarily due to lower harvesting activity.

During the first nine months of 2022, sales for Maine Timberlands were \$15.2 million compared to \$16.3 million in the prior year period. The weighted average selling price, excluding biomass, increased 17% in Canadian dollar terms, and 15% in U.S. dollar terms, however, sales volume, excluding biomass, decreased 21% year-over-year due to limited contractor availability. Operating costs and expenses of \$12.0 million during the first nine months of 2022 were 8% lower than the \$12.9 million in the prior year period, as a result of lower harvesting activity partially offset by higher contractor fuel costs.

### **Carbon Credit Project<sup>1</sup>**

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.

The initial model for the project has been completed and 1.6 million credits have been estimated on a preliminary basis over a ten-year reporting period, with 0.7 million of these credits expected to be registered on the American Carbon Registry in the fourth quarter of 2022. There is the potential for sales to be realized immediately following successful registration.

Preliminary credit volumes have been submitted to third-party verifiers, who will audit the model. Accordingly, the final issued volumes could vary from the estimates presented. The impact to Acadian's financial results is subject to the successful marketing of the credits and to the timing of, and prices obtained from, contracts negotiated with third parties, which are not yet in place.

## **LIQUIDITY AND CAPITAL RESOURCES**

Acadian had net liquidity of \$17.1 million as at September 24, 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 nine months ended September 24, 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<sup>1</sup>**

The North American economic outlook remains uncertain. With interest rates rising, as well as housing sales and price growth slowing, consensus forecast has been lowered to approximately 1.55 million U.S. housing starts in 2022 and 1.40 million in 2023 as compared to 1.60 million in 2021. These estimates, however, are still above historical levels. Accordingly, we remain confident that the stability of the northeast forestry sector combined with the long-term demand for new homes and repair and remodel activity will support the demand for, and pricing of, our products.

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<sup>1</sup> 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](http://www.acadiantimber.com) or [www.sedar.com](http://www.sedar.com).

Though likely to decelerate, inflation is expected to remain a challenge in the near term and to continue to exert pressure on our financial results through increased contractor rates and fuel surcharges that we pay our contractors. The recovery of some of the incremental cost from our customers beginning in the second quarter is expected to continue to mitigate some of this impact.

Although softwood lumber pricing has decreased from its historic levels, demand for softwood sawlogs remains stable in the regions in which Acadian operates and, therefore, strong pricing is expected through the remainder of the year. The implementation of a new Crown timber royalty rate system as announced during the quarter by the Province of New Brunswick will not have an immediate material direct impact to Acadian's net earnings, 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. Demand and pricing for high grade hardwood sawlogs are starting to be pressured by some uncertainty in the end use hardwood markets. However, as we exit the third quarter, Acadian expects stable demand and pricing for its hardwood sawlogs to close out 2022.

Hardwood and softwood pulpwood markets have continued improving and are expected to remain at improved levels throughout the remainder of 2022 and into 2023.

## 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
	Q3	Q2	Q1	Q4	Q3 <sup>2</sup>	Q2 <sup>2</sup>	Q1	Q4
Sales volume (000s m <sup>3</sup> )	229.4	156.7	301.2	290.1	270.9	211.3	290.0	321.2
Sales	\$ 23,594	\$ 16,493	\$ 26,631	\$ 25,946	\$ 24,488	\$ 19,403	\$ 25,892	\$ 24,929
Adjusted EBITDA <sup>1</sup>	4,480	2,747	6,909	6,315	5,394	3,904	6,874	7,288
Free Cash Flow <sup>1</sup>	3,260	1,877	5,014	5,149	3,853	2,941	4,990	5,648
Net income	4,831	4,516	4,158	6,541	344	5,975	5,824	15,314
Per share - basic and diluted	\$ 0.29	\$ 0.27	\$ 0.25	\$ 0.39	\$ 0.02	\$ 0.36	\$ 0.35	\$ 0.92

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 as originally presented, 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 net income for the third quarter of 2021 includes a non-cash unrealized foreign exchange loss on long term debt of \$3.1 million. 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 \$5.1 million being recorded in other comprehensive income rather than through profit and loss for the third 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 third quarter.

## Contractual Obligations

The Company has no material capital or operating lease obligations, however, it has two significant contractual obligations including the Fibre Supply Agreement related to the supply of fibre to Twin Rivers Paper Company ("Twin Rivers") which expires in 2026, subject to a five-year extension at the option of Twin Rivers, and the provision of timber services under the Crown Land Services 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 September 24, 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 <sup>1</sup>	\$ 20,016	—	20,016	—	—
Tranche due March 6, 2025 <sup>1</sup>	23,408	—	23,408	—	—
Tranche due March 6, 2027 <sup>1</sup>	43,424	—	—	43,424	—
Tranche due March 6, 2030 <sup>1</sup>	21,712	—	—	—	21,712
	\$ 108,560	\$ —	\$ 43,424	\$ 43,424	\$ 21,712
Interest payments	\$ 13,064	\$ 764	\$ 8,180	\$ 2,723	\$ 1,397

1. Represents principal of the U.S. dollar denominated term facilities with a U.S. to Canadian dollar conversion rate of 1.3570 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 sections entitled “Carbon Credit Project” and “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.
- Expectations regarding the number and timing of carbon credits that will be successfully verified, registered and available for sale. Estimates are based on a preliminary model which is subject to third-party verification procedures.

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](http://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	September 24, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash		\$ 3,766	\$ 7,316
Accounts receivable and other assets		13,512	8,386
Current income taxes receivable		492	104
Inventory		943	1,450
		<b>18,713</b>	17,256
Timber	3	409,852	394,063
Land, roads, and other fixed assets		102,412	99,183
Intangible asset		6,140	6,140
Total assets		\$ 537,117	\$ 516,642
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 12,244	\$ 8,800
Dividends payable to shareholders		4,876	4,839
		<b>17,120</b>	13,639
Long-term debt	4	108,115	100,888
Deferred income tax liabilities, net		116,780	110,630
Total liabilities		<b>242,015</b>	225,157
Shareholders' equity	5	295,102	291,485
Total liabilities and shareholders' equity		\$ 537,117	\$ 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		Nine Months Ended	
		September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Sales		\$ 23,594	\$ 24,488	\$ 66,718	\$ 69,783
Operating costs and expenses					
Cost of sales		16,266	16,778	45,368	47,406
Selling, administration and other		2,027	1,867	5,921	5,565
Silviculture		821	766	1,307	1,029
Depreciation and amortization		74	66	194	192
		19,188	19,477	52,790	54,192
Operating income		4,406	5,011	13,928	15,591
Interest expense, net		(795)	(748)	(2,295)	(2,230)
Other items					
Fair value adjustments and other		3,027	111	7,185	2,591
Unrealized exchange (loss) / gain on long-term debt		—	(3,088)	—	416
Gain on sale of timberlands and other fixed assets		—	317	14	389
Income before income taxes		6,638	1,603	18,832	16,757
Income tax expense	9	(1,807)	(1,259)	(5,327)	(4,614)
Net income		\$ 4,831	\$ 344	\$ 13,505	\$ 12,143
Net income per share – basic and diluted	6	\$ 0.29	\$ 0.02	\$ 0.81	\$ 0.73

See accompanying notes to interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

<i>(CAD thousands)</i>	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income	\$ 4,831	\$ 344	\$ 13,505	\$ 12,143
Other comprehensive income / (loss)				
Items that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain / (loss)	1,775	4,315	2,455	(303)
Comprehensive income	\$ 6,606	\$ 4,659	\$ 15,960	\$ 11,840

*See accompanying notes to interim condensed consolidated financial statements.*

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

<b>Nine Months Ended September 24, 2022</b> <i>(CAD thousands)</i>	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity	
<i>(CAD thousands)</i>	Note					
Balances as at December 31, 2021		<b>\$ 139,394</b>	<b>\$85,953</b>	<b>\$ 41,638</b>	<b>\$ 24,500</b>	<b>\$ 291,485</b>
Changes during the period						
Net income		—	<b>13,505</b>	—	—	<b>13,505</b>
Other comprehensive gain		—	—	—	<b>2,455</b>	<b>2,455</b>
Shareholders' dividends declared	10	—	<b>(14,571)</b>	—	—	<b>(14,571)</b>
Common shares issued - DRIP	5	<b>2,228</b>	—	—	—	<b>2,228</b>
<b>Balances as at September 24, 2022</b>		<b>\$ 141,622</b>	<b>\$84,887</b>	<b>\$ 41,638</b>	<b>\$ 26,955</b>	<b>\$ 295,102</b>

Nine Months Ended September 25, 2021 <i>(CAD thousands)</i>	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity	
<i>(CAD thousands)</i>	Note					
Balances as at December 31, 2020		\$ 139,394	\$86,626	\$ 42,121	\$ 25,100	\$ 293,241
Changes during the period						
Net income		—	12,143	—	—	12,143
Other comprehensive loss		—	—	—	(303)	(303)
Shareholders' dividends declared	10	—	(14,518)	—	—	(14,518)
<b>Balances as at September 25, 2021</b>		<b>\$ 139,394</b>	<b>\$84,251</b>	<b>\$ 42,121</b>	<b>\$ 24,797</b>	<b>\$ 290,563</b>

See accompanying notes to interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

<i>(CAD thousands)</i>	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Cash provided by (used for):				
<b>Operating activities</b>				
Net income	\$ 4,831	\$ 344	\$ 13,505	\$ 12,143
Adjustments to net income:				
Income tax expense	1,807	1,259	5,327	4,614
Depreciation and amortization	74	66	194	192
Fair value adjustments and other	(3,027)	(111)	(7,185)	(2,591)
Unrealized exchange loss / (gain) on long-term debt	—	3,088	—	(416)
Gain on sale of timberlands and other fixed assets	—	(317)	(14)	(389)
Income taxes paid	(1,175)	(1,110)	(1,858)	(1,642)
Net change in non-cash working capital balances and other	(1,666)	4,031	(1,001)	2,694
	844	7,250	8,968	14,605
<b>Financing activities</b>				
Dividends paid to shareholders	(3,721)	(4,840)	(12,281)	(14,518)
<b>Investing activities</b>				
Additions to timber, land, roads, and other fixed assets	(148)	(148)	(251)	(305)
Proceeds from sale of timberlands and other fixed assets	—	339	14	414
	(148)	191	(237)	109
(Decrease) increase in cash during the period	(3,025)	2,601	(3,550)	196
Cash, beginning of period	6,791	7,853	7,316	10,258
<b>Cash, end of period</b>	\$ 3,766	\$ 10,454	\$ 3,766	\$ 10,454

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

<i>(CAD thousands)</i>	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Accounts receivable and other assets	\$ (7,646)	\$ (864)	\$ (5,126)	\$ 46
Inventory	(217)	(239)	507	104
Accounts payable and accrued liabilities	5,978	4,895	3,444	2,492
Other	219	239	174	52
	\$ (1,666)	\$ 4,031	\$ (1,001)	\$ 2,694

# 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 September 24, 2022, Macer Forest Holdings Inc. owns 7,635,023 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 October 26, 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		25,196
Reduction arising from harvest		(18,051)
Foreign exchange		8,644
<b>Balance as at September 24, 2022</b>	<b>\$</b>	<b>409,852</b>

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>	September 24, 2022	December 31, 2021
Term facilities	\$ 108,560	\$ 101,424
Less:		
Deferred debt issuance costs	(445)	(536)
Total	\$ 108,115	\$ 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 September 24, 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 September 24, 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 September 24, 2022, or December 31, 2021.

The fair value of the Term Facilities as at September 24, 2022 is \$98.5 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 nine months ended September 24, 2022, Acadian issued 66,591 and 125,441 common shares, respectively 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 nine months ended September 24, 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
Common shares issued - DRIP	66,591	1,102
<b>Balance as at September 24, 2022</b>	<b>16,812,357</b>	<b>\$ 141,622</b>

## 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		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Weighted average number of common shares – basic and diluted	<b>16,797,722</b>	16,686,916	<b>16,740,531</b>	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:

<b>Three Months Ended September 24, 2022</b>		<b>NB</b>		<b>Maine</b>		
<b>(CAD thousands)</b>		<b>Total</b>	<b>Timberlands</b>	<b>Timberlands</b>	<b>Timberlands</b>	
Sales						
Softwood	\$	9,559	\$	7,231	\$	2,328
Hardwood		6,670		5,580		1,090
Biomass		1,067		1,064		3
Timber services and other sales		6,298		6,042		256
<b>Total sales</b>		<b>23,594</b>		<b>19,917</b>		<b>3,677</b>
Operating costs and expenses						
Cost of sales		16,266		13,541		2,725
Selling, administration and other		1,696		1,180		516
Silviculture		821		619		202
Depreciation and amortization		70		45		25
		<b>18,853</b>		<b>15,385</b>		<b>3,468</b>
		<b>4,741</b>		<b>4,532</b>		<b>209</b>
Corporate and other expenses		(335)				
Operating income		4,406				
Interest expense, net		(795)				
Fair value adjustments and other		3,027				
Income before income taxes	\$	6,638				

<b>Three Months Ended September 24, 2022</b>		<b>NB</b>		<b>Maine</b>	
<b>(CAD thousands)</b>		<b>Timberlands</b>	<b>Timberlands</b>	<b>Timberlands</b>	<b>Timberlands</b>
Operating income		\$	4,532	\$	209
Add: Depreciation and amortization			45		25
Adjusted EBITDA		\$	4,577	\$	234

<b>As at September 24, 2022</b>		<b>NB</b>		<b>Maine</b>	
<b>(CAD thousands)</b>		<b>Timberlands</b>	<b>Timberlands</b>	<b>Timberlands</b>	<b>Timberlands</b>
Non-current assets		\$	338,118	\$	180,207
Total assets		\$	353,177	\$	182,040



<i>Three Months Ended September 25, 2021</i>		NB		Maine		
<i>(CAD thousands)</i>		Total	Timberlands	Timberlands		
Sales						
Softwood	\$	9,938	\$	6,420	\$	3,518
Hardwood		7,178		5,718		1,460
Biomass		1,164		1,162		2
Timber services and other sales		6,208		6,037		171
Total sales		24,488		19,337		5,151
Operating costs and expenses						
Cost of sales		16,778		13,173		3,605
Selling, administration and other		1,502		1,047		455
Silviculture		766		695		71
Depreciation and amortization		66		40		26
		19,112		14,955		4,157
		5,376		4,382		994
Corporate and other expenses		(365)				
Operating income		5,011				
Interest expense, net		(748)				
Fair value adjustments and other		111				
Unrealized exchange loss on long-term debt		(3,088)				
Gain on sale of timberlands and other fixed assets		317				
Income before income taxes	\$	1,603				

<i>Three Months Ended September 25, 2021</i>		NB		Maine
<i>(CAD thousands)</i>		Timberlands	Timberlands	Timberlands
Operating income	\$	4,382	\$	994
Add: Depreciation and amortization		40		26
Add: Gain on sale of timberlands and other fixed assets		—		317
Adjusted EBITDA	\$	4,422	\$	1,337

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

<b>Nine Months Ended September 24, 2022</b>			
<b>(CAD thousands)</b>			
	<b>Total</b>	<b>NB Timberlands</b>	<b>Maine Timberlands</b>
Sales			
Softwood	\$ 30,205	\$ 19,428	\$ 10,777
Hardwood	19,669	15,726	3,943
Biomass	2,385	2,372	13
Timber services and other sales	14,459	13,944	515
Total sales	66,718	51,470	15,248
Operating costs and expenses			
Cost of sales	45,368	35,174	10,194
Selling, administration and other	4,752	3,250	1,502
Silviculture	1,307	1,105	202
Depreciation and amortization	190	119	71
	51,617	39,648	11,969
	15,101	11,822	3,279
Corporate and other expenses	(1,173)		
Operating income	13,928		
Interest expense, net	(2,295)		
Fair value adjustments and other	7,185		
Gain on sale of timberlands and other fixed assets	14		
Income before income taxes	\$ 18,832		

<b>Nine Months Ended September 24, 2022</b>			
<b>(CAD thousands)</b>			
		<b>NB Timberlands</b>	<b>Maine Timberlands</b>
Operating income		\$ 11,822	\$ 3,279
Add: Depreciation and amortization		119	71
Add: Gain on sale of timberlands and other fixed assets		14	—
Adjusted EBITDA		\$ 11,955	\$ 3,350

<i>Nine Months Ended September 25, 2021</i>			
<i>(CAD thousands)</i>			
	Total	NB Timberlands	Maine Timberlands
<b>Sales</b>			
Softwood	\$ 26,542	\$ 15,451	\$ 11,091
Hardwood	22,770	18,005	4,765
Biomass	3,259	3,249	10
Timber services and other sales	17,212	16,816	396
<b>Total sales</b>	<b>69,783</b>	<b>53,521</b>	<b>16,262</b>
<b>Operating costs and expenses</b>			
Cost of sales	47,406	36,063	11,343
Selling, administration and other	4,531	3,085	1,446
Silviculture	1,029	956	73
Depreciation and amortization	192	115	77
	<b>53,158</b>	<b>40,219</b>	<b>12,939</b>
	<b>16,625</b>	<b>13,302</b>	<b>3,323</b>
Corporate and other expenses	(1,034)		
Operating income	15,591		
Interest expense, net	(2,230)		
Fair value adjustments and other	2,591		
Unrealized exchange gain on long-term debt	416		
Gain on sale of timberlands and other fixed assets	389		
Income before income taxes	\$ 16,757		

<i>Nine Months Ended September 25, 2021</i>			
<i>(CAD thousands)</i>			
		NB Timberlands	Maine Timberlands
Operating income		\$ 13,302	\$ 3,323
Add: Depreciation and amortization		115	77
Add: Gain on sale of timberlands and other fixed assets		—	389
Adjusted EBITDA		\$ 13,417	\$ 3,789

Approximately 33% and 35% of total sales during the three months and nine months ended September 24, 2022 were originated with customers domiciled in the U.S. and the balance in Canada (September 25, 2021 – 32% and 35%). Approximately 26% and 35% of total sales were denominated in U.S. dollars during the same period (September 25, 2021 – 30% and 35%).

Acadian sells its products to many forest products companies in North America. For the three months and nine months ended September 24, 2022, sales to the largest and next largest customer accounted for 25% and 8%, and 20% and 11%, respectively (September 25, 2021 – 22% and 9%, and 18% and 11% 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 \$5.1 million and \$7.1 million for the three months and nine months ended September 24, 2022.

## 9. INCOME TAXES

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

<i>(CAD thousands)</i>	Three Months Ended		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Current income tax expense	\$ 307	\$ 698	\$ 1,530	\$ 1,983
Deferred income tax expense	1,500	561	3,797	2,631
Total income tax expense	\$ 1,807	\$ 1,259	\$ 5,327	\$ 4,614

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		Nine Months Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Income taxes at statutory rate	\$ 1,926	\$ 390	\$ 5,462	\$ 4,763
Foreign tax rate differential	(3)	(8)	(19)	(28)
Non-taxable portion of gains	—	428	—	(83)
Unrecognized tax attributes (benefit of prior years)	—	449	—	(38)
Changes in estimates related to prior years	(116)	—	(116)	—
Total income tax expense	\$ 1,807	\$ 1,259	\$ 5,327	\$ 4,614

## 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 nine months ended September 24, 2022 were \$4.9 million and \$14.6 million, respectively (September 25, 2021 – \$4.8 million and \$14.5 million) or \$0.29 and \$0.87 per share (September 25, 2021 – \$0.29 and \$0.87 per share).

## 11. SUBSEQUENT EVENT

On October 15, 2022, Acadian issued 73,067 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 nine months ended September 25, 2021 as originally presented, resulted in adjustments. The changes increased sales in the three and nine months ended September 25, 2021 by \$1.8 million and 2.8 million respectively, and increased net income by \$257 thousand and \$334 thousand respectively. 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 Shepanski  
*President and  
Chief Executive Officer  
Acadian Timber Corp.*

### MANAGEMENT

Adam Shepanski  
*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](mailto: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](mailto:shareholderinquiries@tmx.com)  
[www.tsxtrust.com](http://www.tsxtrust.com)

### SHARE INFORMATION

Toronto Stock Exchange: ADN  
Fully Diluted Shares Outstanding (September 24, 2022):  
16,812,357  
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](http://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 sections entitled "Carbon Credit Project" and "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; estimates for U.S. housing starts are based on forecasts published by major financial institutions; and expectations regarding the number and timing of carbon credits that will be successfully verified, registered and available for sale based on a preliminary model which is subject to third-party verification procedures. 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](http://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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**ACADIAN**TIMBER