



ACADIANTIMBER



# **Acadian Timber Corp.**

## **Annual General Meeting**

### **Conference Call Transcript**

**Date:** Tuesday, May 03, 2011

**Time:** 1:00 PM ET

**Speakers:** **Sam Pollock**  
Chairman of the Board

**Reid Carter**  
President and Chief Executive Officer

**SAM POLLOCK:**

Good afternoon, ladies and gentlemen. It is my pleasure to welcome everyone here today. It is now 1 PM and time to start the Annual Meeting of Acadian Timber Corp.

My name is Sam Pollock, and as Chairman of the Company I will chair this meeting. With me at the head table today is Reid Carter. He is our President and Chief Executive Officer and also a Director.

I now call the meeting to order and ask Leigh Tang, Corporate Secretary of the Company, to act as Secretary of the meeting. I would also ask CIBC Mellon Trust Company by its representatives, Christopher de Lima and Bill Zuwada, to act as Scrutineer.

Before we turn to the business before, I would like to deal with a few procedural matters. For the purpose of running the meeting efficiently, arrangements have been made to have certain shareholders move and second the resolutions coming before the meeting.

A presentation will be made following the formal business portion of the meeting after which management would be pleased to discuss any questions you may have.

The notice calling this meeting and the Management Information Circular were sent to shareholders. I've asked Leigh Tang go file proof of service of the Notice of Meeting with the records of the meeting, and she has done so. The minutes of last year's Annual Meeting held on April 28, 2010, are also available should any shareholder wish to review them.

Based on the Scrutineer's preliminary report on attendance, the Secretary has confirmed that there is a quorum present. I therefore declare the meeting properly constituted for the transaction of the business for which it's been called.

I will now table the Corporation's 2010 Annual Report to shareholders, which includes the 2010 financial statements together with the Auditor's Report. Copies of our Annual Report were mailed to registered shareholders and are also available here today.

We will now proceed with the election of five directors, each of whom is to be elected at this meeting to hold office until the next Annual Meeting. Particulars of the five nominees are set out in the Information Proxy Circular, which accompanied the Notice of Meeting sent to shareholders.

I will now call for nominations for the election of five directors of the corporation.

**KATHERINE VYSE:**

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

**SAM POLLOCK:**

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

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

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

We also have today several members of management, and I'd also like to ask them to stand, Brian Banfill, our Chief Financial Officer; Luc Ouellet, our VP - New Brunswick Operations; Marcia McKeague our VP of Maine Operations; and Kevin Topolniski, our Chief Forester.

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

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

**DAVID MANN:**

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

**SAM POLLOCK:**

Thank you, David. May I have a seconder?

**LINDA NORTHWOOD:**

Mr. Chairman, my name is Linda Northwood, and I second the motion.

**SAM POLLOCK:**

Thank you, Linda. Adoption of this motion requires a favorable vote of a majority of the votes cast at the meeting by shareholders. Management has received proxies representing approximately 68% of the Corporation's units. These proxies direct management to vote over 99% of these units in favor of the resolution.

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

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

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

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

With that, I would now turn it over to Reid and have him provide some remarks on the Company.

**REID CARTER:**

Thank you, Sam, and thank you for joining us this afternoon.

I just want to provide a reintroduction to where Acadian is today and provide an update on our performance in 2010, a brief update on our performance in the first quarter of 2011 and a bit of an outlook for the remainder of the year.

So, let's begin with a look at Acadian's operations as they stand today. Acadian is a leading supplier of primary forest products in Eastern Canada and the North-Eastern United States. We have approximately 1.1 million acres in New Brunswick and Maine. We're the second largest timberland operator in that region.

Our timberlands have been under active management for over 100 years. They benefit from having a very high-quality infrastructure all in place, and our business continues to be really a pure timberlands business. We don't have manufacturing assets, so our focus is on forest management, harvesting, marketing and sales, all the aspects of capturing the full margin of opportunity from our timber operations.

Just taking a very high-level view of our performance in 2010, Acadian continued to have a very strong safety record in 2010. In our New Brunswick operations we both had a strong performance among our employees and our contractors. In our Maine operation we, in fact, had celebrated our eleventh year with no incidents among our employees.

We continue to take safety very seriously. We view it as a leading indicator of our overall performance, and we're well pleased with the performance we've achieved; always look to improve going forward.

Operations performed well in 2010. We met both our operating goals and, in fact, exceeded our, albeit somewhat modest, financial goals given the uncertainty around the overall global marketplace.

We were fortunate that many of our softwood saw-milling customers really operated at quite a high level during 2010, particularly in the first 2 quarters. So, we saw both strong demand and pricing for

the majority of our softwood sawlog products. And we also benefited from a -- really very strong pulp market, particularly hardwood pulp market, which again supported demand in pricing.

One of our major achievements in 2010 was gaining a commitment letter from a major US institution, Metropolitan Life Assurance Company, to refinance what had been our bank debt with a 5-year fixed rate US \$72.5 million loan with an associated \$10 million floating rate revolving loan, which this has been closed and really has been a very successful financing, reducing our financial expenses by approximately \$1 million a year.

We show this next chart each year really to show you how diversified both our product and our customer mix is. With the chart on the left, you know, it shows that we have a tremendous breadth of products, a wide spectrum of markets, in fact, we have in most cases three to four different customers for any one of our given products, and we're able to move between these markets across the business cycle, harvesting and merchandising those products that offer the greatest margin opportunity. And we believe this is a key to maximizing and stabilizing our earnings.

Software sawlogs in 2010 remained stable at about 38% of our net sales versus 39% in 2009 with sales volume increasing by 28% from 2009, reflecting the stronger wood products market.

Pulpwood declined to 39% of net sales from 43% in 2009. Hardwood sawlogs and biomass were 11% and 6% respectively of net sales, and those were comparable to their proportion of our total sales in 2009.

Looking now at our financial performance, we're pleased with Acadian's strong financial performance and believe our results place Acadian very well among our peers.

Acadian sales increased by \$6.6 million over 2009, largely reflecting an 11% increase in year-over-year harvest volume. Our EBITDA increased by 50%, or \$5.9 million, and our EBITDA margins came close to returning to the trend that we had prior to this downturn.

As you're aware, Acadian reduced its dividend in the third quarter of 2009, reflecting the exceptionally difficult market environment at that time. Acadian's strong performance in 2010 resulted in free cash

flow of \$0.81 per share at a pay-out ratio of only 26%. Now, admittedly, that was on the reduced dividend.

This strong performance and an improving outlook resulted in Acadian announcing the return to its \$0.825 per year dividend in its Fourth Quarter Report effective April 15th, 2011.

We're very pleased to return to the dividend yield that was established at Acadian since inception in 2006, and we look forward to further increases of this dividend in the future.

Now, I'll briefly review Acadian's first quarter for 2011. We had a strong safety performance and very strong operating and financial performance in the first quarter, reflecting the continuing recovery of the North American wood products industry and, importantly, a very strong market for hardwood pulpwood.

Free cash flow of \$7.1 million resulted in a very low 49% pay-out ratio, leaving Acadian in a strong financial position with a cash balance of \$11.3 million. This is \$8.4 million higher than our net cash position of \$2.9 million at the same time last year and is \$4 million higher than our cash position at the end of the fourth quarter in 2010.

This brings me to the outlook part of our presentation today and, as I've mentioned, Acadian benefited from relatively high operating rates and tight wood supplies in its softwood saw-milling customers despite the continued weak US housing market.

In our Maine operations, this tightness partially reflected an initiative on the part of the State of Maine to limit Canadian laborers access to the main market, and this resulted in relatively tight timber supplies and supported demand for those products we were able to produce and certainly supported pricing.

In hardwood pulpwood and sawlog, demand was strong through the first quarter and we expect that to remain strong through 2011. Softwood pulpwood has had a nice recovery. It's a relatively small product for us over the last few quarters. The recent closure of a very large ground wood pulp customer in Maine did result in some concerns for us, but it now appears that other regional softwood pulp producers in the region are very keen to take up any available supply that we may have.

In terms of our 2011 objectives, Acadian benefits from a very strong balance sheet, excellent free cash flow, as evidenced by our low payout ratio and a talented and committed workforce, and this allows us to feel very confident that we're well positioned to meet and hopefully exceed our dividend targets for 2011 and beyond.

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

We continue to believe Acadian is -- has a high-quality timberlands asset base that represents a unique opportunity in a renewable and non-depreciating resource. We look forward to demonstrating this view of our business through steadily improving cash flows in 2011 and beyond.

Mr. Chairman, that concludes my remarks. I'd be happy to take any questions.

**SAM POLLOCK:**

Okay. Well, as -- any questions?

**UNIDENTIFIED PARTICIPANTS:**

(inaudible)

**SAM POLLOCK:**

Yes. Yes, I think you are.

**SAM POLLOCK:**

Well, we appreciate you coming. So, as there are no further questions, then I'd just like to thank everyone and thank you for coming, and I hope you found the meeting informative. And, as there is no other business, then I declare the meeting terminated. Thank you.