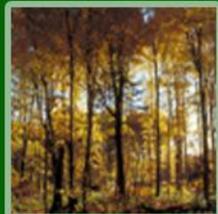




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## Acadian Timber Corp. Q2 2011 Conference Call Transcript

**Date:** Thursday, July 28, 2011

**Time:** 10:00 AM ET

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

**Brian Banfill**  
Senior Vice President & Chief Financial Officer



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**OPERATOR:**

At this time I would like to turn the conference over to Mr. Brian Banfill, Senior Vice President and Chief Financial Officer. Please go ahead Mr. Banfill.

**BRIAN BANFILL:**

Before we get started I would like to call your attention to the following. The conference call is being webcast simultaneously through our website at [www.acadiantimber.com](http://www.acadiantimber.com) where you can also find a copy of the press release including the financial statements.

Please note that in responding to questions and talking about our financial and operating performance and outlook for 2011 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 known risk factors I encourage you to review Acadian's Annual Information Form dated March 28, 2011 and other filings of Acadian with securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website.

I will start by outlining the financial highlights for the second quarter then Reid Carter, our Chief Executive Officer will conclude with more general comments about our operations, market conditions and outlook for the remainder of 2011.

As we have discussed before, the second quarter, which in Acadian's case corresponds with the Spring season, is typically our weakest quarter due to limited access to roads and timber lots as the ground thaws. Weather conditions during the Spring season this year were more difficult than last year with Winter conditions persisting into the early part of the quarter and heavy rains in New Brunswick and Maine, late in the quarter.

While the extended winter conditions allowed the New Brunswick Operations to continue harvest and delivery of logs into early April, this benefit was more than offset by the wet weather later in the quarter and as a result Acadian's second quarter net sales decreased \$0.4 million over the same period in 2010 to \$11.7 million.

The total second quarter sales volume of 243,000 cubic meters was down 10% from 270,000 cubic meters in the comparable period last year, with all of the decrease attributable to the Maine operations.

Acadian generated EBITDA of \$0.6 million or 5% of sales which was \$0.4 million lower than the amount generated in the second quarter of 2010. Our results benefited from relatively strong markets for hardwood and softwood saw logs and particularly strong demand in pricing for hardwood pulpwood with Acadian's weighted average selling price across all products increasing 9% over the same period in 2010.

However, this positive pricing environment was offset by lower sales volumes. The net loss for the quarter was \$0.3 million. Included in the quarter's net loss was a \$1.2 million positive fair value adjustment, a \$0.5 million unrealized foreign exchange loss on long-term debt and a \$0.8 million deferred income tax expense. These expenses have not been included in our calculation of EBITDA or free cash flow and are not reflective of the operating performance of Acadian during the period.



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Despite EBITDA being \$0.4 million lower than the amount generated in the second quarter of 2010, free cash flow improved by \$0.4 million over the same period. This improvement was primarily attributable to the \$0.4 million reduction in interest paid under the new financing arrangements, assisted by lower capital spending.

I will now briefly review the segmented results for Acadian's New Brunswick and Maine operations. The New Brunswick timberlands results reflect a 10% year-over-year increase in average selling price across all products resulting from improved spruce, fir saw log demand and strong hardwood pulp log markets. The weighted average selling price was \$49 per cubic meter in the second quarter of 2011 as compared to \$45 per cubic meter in the same period last year and \$46 in the previous quarter.

Net sales were \$10.6 million on sales volume of 222,000 cubic meters compared with net sales of \$9.7 million on the same sales volume in the second quarter of last year. Sales volume in the second quarter was comprised of approximately 37% saw logs, 48% pulpwood and 15% biomass. This compares to 36% sold as saw logs, 41% as pulpwood and 23% as biomass in the second quarter of last year.

Total costs for the second quarter were \$9.5 million as compared to \$8.8 million in the comparable quarter of 2010. Variable costs per cubic meter were 4% higher than in the second quarter of 2010 primarily as a result of an increased proportion of sales made to more distant markets, particularly for hardwood pulpwood.

Second quarter EBITDA for the New Brunswick operations was \$1.1 million or 11% of sales as compared to EBITDA of \$0.9 million or 9% of sales in the second quarter of 2010. A greater proportion of softwood saw logs in the sales mix and increased hardwood prices contributed to this modest year-over-year improvement.

Switching to our Maine timberlands operations, net sales in the second quarter were \$1.1 million on sales volume of 21,000 cubic meters, well below the net sales of \$2.4 million on sales volume of 48,000 cubic meters in the same period of 2010. As poor weather conditions in the region resulted in a late start from spring breakup. On a U.S.-dollar basis softwood saw log prices remained up 12% compared to 2010 and hardwood saw log prices were up 8% over the same period in 2010. These improvements resulted in a weighted average selling price in U.S. dollar terms increasing 8%, or \$4 per cubic meters over the same period in 2010, to \$51 per cubic meter. A year-over-year increase in the Canadian/U.S. dollar exchange rate reduced the benefit of these market changes in Canadian dollar terms.

Approximately 50% of Maine's volume was sold as saw logs, 40% as pulpwood and 10% as biomass. This compares to 49% sold as saw logs, 43% as pulpwood and 8% as biomass, in the second quarter of 2010. Total costs for the second quarter of 2011 of \$1.5 million or \$0.7 million lower than in the same period of 2010. Decreased harvest volumes were the primary contributor, although a 6% drop in variable cost per unit in Canadian dollar terms, resulting from reduced hauling distances, and the stronger Canadian/U.S. dollar exchange rate also helped. Variable costs per unit in U.S. dollar terms decreased 2%.



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Due to the low harvest volumes in the second quarter EBITDA for the Maine operations fell to negative \$0.1 million from positive \$0.4 million in 2010. EBITDA margin in the second quarter of 2011 was negative 13% of sales compared to positive 10% of sales for the second quarter of 2010. There were

no material capital expenditures in either of Acadian's operations during the second quarter of 2011 as compared to \$0.3 million during the same period in 2010.

At the end of the second quarter Acadian had a cash balance of \$6.5 million which is \$7.2 million higher than our net cash position of negative \$0.7 million at the same time last year, but is \$4.8 million lower than our cash position at the end of the first quarter of 2011, due to the seasonal reduction of operations during the second quarter. At June 25, 2011 Acadian had the full balance of USD10 million of available credit remaining on its facility. Our balance sheet remains strong and our cash flow is expected to continue to improve, leaving Acadian well positioned for the future.

I will now turn the call over to Reid.

**REID CARTER:**

Thank you Brian and good morning. Well, the second quarter of the year is traditionally our weakest due to seasonal operating conditions, Acadian experienced particularly wet operating conditions in the second quarter of 2011 and this further constrained our harvesting opportunities. Despite these challenges, Acadian was able to break even from a cash flow perspective which was a point -- a \$4 million improvement over our second quarter of 2010 result.

Safety performance continued to be strong with no recordable safety incidents among our employees. There was one minor recordable safety incident among our contractors from which the individual has fully recovered. As you know, Acadian takes its commitment to safety very seriously as we believe that emphasizing and achieving a good safety record is a leading indicator of success in the broader business. We remain very focused on safety requirements and look forward to reporting continued progress in the future.

While I would note that the traditionally low level of production and sales in the second quarter leads to considerable volatility and period-over-period price comparisons reducing their utility, price trends were generally positive. Acadian's weighted average selling price across all products increased by 9% year-over-year due to improved market conditions. Prices for hardwood pulpwood which accounted for 36% of consolidated sales volume increased 6% year-over-year while prices for softwood pulpwood increased by 11% over the same period.

Prices for softwood and hardwood saw logs increased by 3% and declined by 3% respectively in the second quarter of 2010 as compared to the second -- sorry, the second quarter of 2011 as compared to the second quarter of 2010. With the small decline in hardwood saw logs selling price, reflecting changes in mix rather than any negative market reaction.

Biomass markets remained stable during the quarter although year-over-year pricing comparisons were not particularly meaningful owing to changes in the point of sale. Contributions from Acadian's land services agreement declined slightly compared to the same period in 2010 due to seasonal operating conditions. These contributions are expected to recover in the third quarter and to continue at a comparatively high level throughout 2011 as licensees maintain increased harvest levels aimed at



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utilizing unused harvest volumes from the 2008 and 2009 period, in the final year of their five-year cut control period.

Acadian continues to benefit from most of its softwood saw milling customers maintaining active operations and as a result demand for spruce for saw logs continues to be strong causing our outlook to be cautiously optimistic for the remainder of 2011. Markets for Acadian's other softwood species

are mixed with demand for Hemlock being very strong, while markets for white pine and cedar are softer. Although, I would note the spruce fir comprises the majority of softwood saw log sales. Markets for hardwood saw logs remains stable and appear to have a similar outlook for the foreseeable future.

Markets for both softwood and hardwood pulp logs are strong with demand in pricing continuing to improve. While consensus expectations appear to forecast softening pulp markets during the second half of 2011 Acadian's major hardwood pulpwood customers are currently operating and actively competing for deliveries suggesting prices will remain stable through the third quarter with a possible softening of demand late in the year.

Acadian continues to be able to sell all of its biomass, although more optimistic expectations for growth in this market have moderated with current low natural gas prices and little expectations of new economic incentives for conversion to renewable fuels in the U.S. We are encouraged by this increasingly wide spread, evidence of improving market conditions. As demand continues to improve we will focus on harvesting and merchandising to meet market opportunities while actively seeking to improve prices. We thank you for your continued support of Acadian Timber and remain confident in Acadian's long-term outlook and the quality of our asset base.

That concludes our formal remarks and we're available to take any questions by any participants on the line. Operator.

**OPERATOR:**

The first question is from Paul Tan of Credit Suisse. Please go ahead.

**PAUL TAN:**

Hi, thank you. Would the strengthening of the Canadian dollar versus the U.S. dollar, how do you see the competitiveness of Canadian forest products?

**REID CARTER:**

Well, I think there's a number of factors at play there. Ultimately, much of our market is a U.S. market so clearly, our U.S. operations have costs in U.S. dollars and sell in U.S. dollars and we suffer on the trans -- on the Canadian dollar translation of any earnings created in the Maine operations. Our Canadian dollar costs, sell in U.S. dollars and if those markets -- as U.S. markets continue to strengthen we'll see lower Canadian dollar sales realization. I think we view our business as having a reasonably good hedge between the two, but clearly we do report in Canadian dollars and our larger operations are in Canada with Canadian dollar costs.



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**PAUL TAN:**

And just a follow up on that one, do you see, potentially, if it gets -- continues to get stronger, that you'll see U.S. product going into Canada and how do you think that will affect yourself as well as your competitors, or just in the whole complex itself?

**REID CARTER:**

Well, the Maritimes and the New England states have a very open border. And along with the Eastern townships of Quebec as it's always been very significant log flows back and forth for both the pulp and paper and the wood products business. We would -- I'm not anticipating U.S. lumber producers becoming much more significant players in the Canadian market, simply the freight advantages of the

Canadian producers and the very significant production of Canadian producers, I'm confident they'll be able to maintain their Canadian market share.

The real issue is just overall -- and that for the, at least the foreseeable future, is overall demand in the North American market and the relative competitiveness of Canadians versus Americans. The challenge will be for Canadian producers to be as profitable as they may otherwise be with a weaker U.S. dollar.

**PAUL TAN:**

Thank you very much, that was helpful.

**OPERATOR:**

The next question is from Paul Quinn of RBC Capital Markets. Please go ahead.

**PAUL QUINN:**

Good morning. Can you just give us an update on what you're seeing in the overall timberland markets across North America?

**REID CARTER:**

In terms of timberland transaction prices, or log selling prices and there's -- in terms of timberland transaction prices, the market continues to be very thin. We had -- in the first quarter Hancock made a major acquisition in the Pacific Northwest from Weyerhaeuser that using our underwriting assumptions, we would believe it was fully valued and at levels consistent with levels seen over the previous years.

There has been a sale completed in the U.S. South, that I haven't seen the report on, but our understanding only through anecdotal evidence is that that again, was at a price consistent with I would say good solid average pricing of transactions over the previous three or four years. So while there is some evidence of smaller transactions taking place at certainly prices lower than the marquis pricing that we saw in some of the -- or the very high pricing we saw in the marquis transactions. I don't think there's any evidence that timberland values have declined in any meaningful way, just probably as I say, the marquis prices are harder to achieve today.

We really believe that there is somewhere between \$3 billion and \$4 billion of capital that has been raised, now committed to timberlands transactions that remains uninvested. So we believe that there is still a significant interest in the timberlands asset class with a fair bit of capital deployed and ready



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again, very few transaction opportunities. I think just in terms of timber prices, I'm sure you're very aware of there are prices in the U.S. Pacific Northwest that have seen a spectacular recovery over the last two years. Peaked in May, almost entirely driven by China demand, although are continuing strong, the Japan and Korean market has provided a lot of additional support. Both those -- the Chinese port inventories have grown relatively significantly over the last couple months and there's the normal summer seasonal slowdown, so as expected we're seeing a decline in demand and pricing in the Asian markets since early June. But not expecting a significant decline.

And I've talked about -- the U.S. South really hasn't seen that benefit, there's still -- while there's been reasonable pricing, not strong, for pulpwood saw log pricing has been very weak over the last several years with no participation really, meaningful participation yet, in the recovery that has been led by China. I think we've spoken to the Northeastern market.

**PAUL QUINN:**

Great, that's really helpful. Okay then, another -- just a question, you guys have been benefitted from strong pulp markets the last couple of years, how would you characterize the complete position of the mills that you sell pulpwood to?

**REID CARTER:**

I think we've been very favorably surprised, over the last five years of Acadian's existence, just by how robust these regional mills seem to be. Certainly, particularly the hardwood mills there's always concerns that these are older and smaller hardwood mills. We look at the new production in Latin America, in Asia, with concern but we've seen mills like AV Nackawic convert to sulfite, change of ownership of the Woodlands Mill. The mills that have closed down have come back under new ownership.

Really, it seems to be quite robust and the fiber supply in the region, for a variety of reasons, certainly part of the reason today is the lower operating rates with sawmills making residuals much less available and improving demands for pulpwood. But we have had continued withdrawals of timberlands in the Northeast, for conservation reasons and others, and it has kept the region really quite fiber tight. And I think frankly, we're fairly confident that's going to remain for the medium, longer term.

**PAUL QUINN:**

Great, best of luck for the balance of the year.

**OPERATOR:**

The next question is from Liliana Tzvetkova of Dundee Securities. Please go ahead.

**LILIANA TZVETKOVA:**

Yes, good morning. Just a question on volumes at your Maine operations. (20:31-20:32 inaudible) lower this quarter as compared to last year and you said this was largely due to bad weather. I was just wondering if you expect some increase in volumes in the third quarter versus last year, as a result or we should expect more or less the same volumes year-over-year and in your next quarter?



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**REID CARTER:**

We would expect to catch up most of those volumes. We had very tough weather late in the first quarter reducing -- and some contractor shortages, that reduced production late in the first quarter and that didn't allow us to carry any real volumes into the second quarter, just always a low quarter. And then we had just an extremely wet second quarter delaying startup. So we would expect to catch-up most of those volumes and return to a more normalized year.

**LILIANA TZVETKOVA:**

Okay, great. That's all I had. Thanks.

**OPERATOR:**

There are no more questions at this time. I'll turn the call over to Mr. Carter.

**REID CARTER:**

Well, once again, I would like to thank all of you for your participation and support of Acadian Timber Corp. We look forward to having a good strong second half of the year and look forward to your continued participation. Thanks very much and enjoy your day.