



ACADIAN TIMBER CORP.

Q2 2023 INTERIM REPORT

JUNE 24, 2023

Q2 2023 INTERIM REPORT

Letter to Shareholders

Overview

Acadian Timber Corp. (“Acadian” or the “Company”) experienced strong operational performance for the three months ended June 24, 2023 (the “second quarter”). Favourable weather, which allowed harvest to continue later into the winter and to begin earlier after the spring thaw, combined with increased contractor availability, led to a recovery of much of the volume shortfall of the first quarter of 2023. Acadian continued to benefit from stable regional demand and prices.

Acadian generated \$4.1 million of Free Cash Flow² and declared dividends of \$4.9 million to our shareholders during the second quarter. Our balance sheet continues to be solid with \$17.0 million of net liquidity² as at June 24, 2023, 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 a good safety record is a leading indicator of success in the broader business. Acadian’s operations experienced no recordable safety incidents during the quarter among employees or contractors.

Acadian generated sales of \$20.7 million during the second quarter, compared to \$16.5 million in the prior year period, with sales volume, excluding biomass, up 18%. The higher volumes were primarily a result of favourable operating conditions and increased contractor availability. Weighted average selling price, excluding biomass, increased 9% year-over-year, benefiting from strong softwood sawlog and hardwood pulpwood prices driven by strong demand.

Adjusted EBITDA² was \$5.7 million during the second quarter compared to \$2.7 million in the prior year period and Adjusted EBITDA margin² for the quarter was 27% compared to 17% in the prior year period.

Net income for the second quarter totaled \$5.8 million, or \$0.34 per share, compared to \$4.5 million, or \$0.27 per share, in the same period of 2022. The increase in net income compared to the prior year period was primarily the result of higher operating income and gain on sale of timberlands, partially offset by lower non-cash fair value adjustments.

Carbon Credit Project¹

On June 8, 2023, 770,071 voluntary carbon credits were registered on the American Carbon Registry and made available for sale under the project name Anew – Katahdin Forestry Project, and have been recorded as inventory in our June 24, 2023 interim condensed consolidated financial statements. These carbon credits are associated with our first carbon credit development project on the portion of our Maine Timberlands that is subject to a working forest conservation easement. Our focus has now turned to the marketing and sale of these credits as well as the registration of future tranches.

The total volume of credits expected to be generated from the project over the 10-year crediting period has increased from the initial estimate of 1.6 million credits to 1.9 million credits. Actual credit issuances will be adjusted each reporting period based on actual harvesting, natural disturbances, and other factors, as well as periodic updating for inventory and verification activities.

This project has provided valuable experience to the Acadian management team and has formed the foundation for potential further carbon credit developments in the future.

Outlook¹

North American inflation concerns persist, and interest rates continue to increase, which has put near-term pressure on end use markets. However, we remain confident that the stability of the northeastern forestry sector, combined with the long-term demand for new homes and repair and remodel activity, will support the demand for our products. Consensus forecast for U.S. housing starts has risen to approximately 1.37 million starts in 2023.

We experienced increased contractor availability during the second quarter and expect to maintain this capacity throughout the remainder of the year. Inflation continues to impact our financial results through elevated contractor rates and fuel surcharges.

Demand for Acadian's sawlogs is mainly driven by regional supply and demand, meaning that the stable demand experienced in the first half of 2023 is expected to continue. Pricing for softwood sawtimber is expected to remain stable, however, pricing for hardwood sawtimber may weaken, reflecting the recent weakness in hardwood lumber pricing. While regional inventories of hardwood pulpwood have been replenished and demand has begun to slow, this market is expected to remain stable. Softwood pulpwood markets are expected to remain at the improved levels experienced in 2022.

Looking Ahead

Acadian continues to benefit from a strong balance sheet, diverse markets, and a highly capable team that remains focused on strong financial and operating performance. These factors, combined with stable regional demand, are expected to generate solid results for the remainder of the year. The progress made increasing contractor availability will benefit us for the second half of 2023 and beyond.

With the successful registration of the first tranche of carbon credits, the focus will now be on marketing and sale of those carbon credits. We will also begin working towards registration of the next tranche and continue evaluating future projects.

As always, we will remain focused 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 of Directors and management of Acadian, I would like to thank all our shareholders for their ongoing support.



Adam Shepanski

President and Chief Executive Officer

July 26, 2023

1. *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.*
2. *Adjusted EBITDA, Adjusted EBITDA margin and Free Cash Flow 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. Acadian's management defines Adjusted EBITDA as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads and depreciation and amortization, and "Adjusted EBITDA margin" as Adjusted EBITDA as a percentage of Acadian's 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 other fixed assets (proceeds less gains or losses).*

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All figures in Canadian dollars unless otherwise stated)

July 26, 2023

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 timber products include softwood and hardwood sawlogs, pulpwood, and biomass by-products, sold to approximately 90 regional customers. Acadian also develops carbon credits for sale in voluntary carbon credit markets.

Acadian's business strategy is to maximize cash flows from its existing timberland assets through sustainable forest management and other land use activities while growing its business by acquiring assets and actively managing these assets to drive improved performance.

Basis of Presentation

This management's discussion and analysis ("MD&A") discusses the financial condition and results of operations of the Company for the three months and six months ended June 24, 2023 (herein referred to as the "second quarter") compared to the three months and six months ended June 25, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the second quarter and the audited annual consolidated financial statements and the related MD&A for the fiscal year ended December 31, 2022.

Our second quarter unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" using the accounting policies adopted and disclosed in Note 2 of Acadian's audited 2022 consolidated financial statements and are expressed in Canadian dollars unless otherwise noted. External economic and industry factors remain unchanged since the previous annual report, unless otherwise noted. This MD&A has been prepared based on information available as at July 26, 2023. Additional information is available on Acadian's website at www.acadiantimber.com and on SEDAR at www.sedar.com.

Non-IFRS Measures

Throughout this MD&A, reference is made to "Adjusted EBITDA", which Acadian's management defines as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads and depreciation and amortization, and to "Adjusted EBITDA margin", which is Adjusted EBITDA as a percentage of sales. Reference is also made to "Free Cash Flow", which Acadian's management defines as Adjusted EBITDA less interest paid, current income tax expense, and capital expenditures plus net proceeds from the sale of timberlands and other 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 our 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, 2022. There have been no changes in our disclosure controls and procedures during the six months ended June 24, 2023 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, 2022. There have been no changes in our internal controls over financial reporting during the six months ended June 24, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

REVIEW OF OPERATIONS

Summary of Second Quarter and Year-to-Date Results

The table below summarizes operating and financial data for Acadian:

<i>(CAD thousands, except per share information)</i>	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Sales volume (000s m ³)	184.2	156.7	389.4	457.9
Sales	\$ 20,707	\$ 16,493	\$ 43,069	\$ 43,124
Operating income	5,217	2,684	10,521	9,522
Net income	5,813	4,516	11,433	8,674
Adjusted EBITDA ¹	\$ 5,651	\$ 2,747	\$ 11,252	\$ 9,656
Adjusted EBITDA margin ¹	27%	17%	26%	22%
Free Cash Flow ¹	\$ 4,108	\$ 1,877	\$ 7,831	\$ 6,891
Dividends declared	4,940	4,856	9,859	9,695
Dividends paid in cash	3,724	3,713	7,445	8,552
Payout Ratio ^{1,3}	n/a	n/a	126%	141%
Payout Ratio with DRIP ^{1,3}	n/a	n/a	95%	124%
Per share – basic and diluted				
Net income	\$ 0.34	\$ 0.27	\$ 0.67	\$ 0.52
Free Cash Flow ¹	0.24	0.11	0.46	0.41
Dividends declared	0.29	0.29	0.58	0.58
Book value	17.98	17.45	17.98	17.45
Common shares outstanding	17,034,042	16,745,766	17,034,042	16,745,766
Weighted average shares outstanding ²	17,016,697	16,732,832	16,988,945	16,710,792

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

2. *As at July 26, 2023 there were 17,108,241 common shares outstanding.*

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

During the second quarter, Acadian generated sales of \$20.7 million, compared to \$16.5 million in the prior year period. The weighted average selling price, excluding biomass, increased 9% year-over-year, benefiting from strong softwood sawlog and hardwood pulpwood prices driven by strong demand.

Sales volume, excluding biomass, was 18% higher compared to the prior year period as a result of favourable weather, which allowed harvest to continue later into the winter and to begin earlier after the spring thaw, and increased contractor availability. Biomass sales volume was 8% higher due to favourable market conditions.

Operating costs and expenses were \$15.5 million during the second quarter, compared to \$13.8 million during the prior year period, reflecting higher sales volumes. Weighted average variable costs, excluding biomass, were 10% lower as compared to the prior year period, primarily as a result of lower fuel costs and shorter hauling distances, partially offset by increased contractor rates.

Net income for the second quarter totaled \$5.8 million, or \$0.34 per share, compared to \$4.5 million, or \$0.27 per share, in the same period of 2022. The increase in net income compared to the prior year period was primarily the result of higher operating income and gain on the sale of 16 acres of timberlands, partially offset by lower non-cash fair value adjustments.

Adjusted EBITDA was \$5.7 million during the second quarter compared to \$2.7 million in the prior year period, reflecting higher operating income and gain on sale of timberlands. Adjusted EBITDA margin for the quarter was 27% compared to 17% in the prior year period. Free Cash Flow was \$4.1 million, being \$2.2 million higher than the prior year period.

During the first half of 2023, Acadian generated sales of \$43.1 million, consistent with the prior year period. Sales volume, excluding biomass, was 18% lower than the first half of 2022 but was offset by a 13% increase in the weighted average selling price, excluding biomass. Operating costs and expenses of \$32.5 million were \$1.1 million lower year-over-year. Adjusted EBITDA of \$11.3 million was \$1.6 million higher compared to the prior year period.

For the six months ended June 24, 2023, net income was \$11.4 million, or \$0.67 per share, which represents an increase of \$2.7 million compared to the prior year period, primarily the result of higher operating income, gain on sale of timberlands and non-cash fair value adjustments.

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:

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Net income	\$ 5,813	\$ 4,516	\$ 11,433	\$ 8,674
Add / (deduct):				
Interest expense, net	771	763	1,580	1,500
Income tax expense	2,334	1,835	4,616	3,520
Depreciation and amortization	83	63	156	120
Fair value adjustments and other	(3,350)	(4,430)	(6,533)	(4,158)
Adjusted EBITDA ¹	\$ 5,651	\$ 2,747	\$ 11,252	\$ 9,656
Add / (deduct):				
Interest paid on debt, net	(740)	(731)	(1,519)	(1,439)
Additions to timber, land, roads, and other fixed assets	(146)	(39)	(177)	(103)
Gain on sale of timberlands and other fixed assets	(351)	—	(575)	(14)
Proceeds from sale of timberlands and other assets	360	—	590	14
Current income tax expense	(666)	(100)	(1,740)	(1,223)
Free Cash Flow ¹	\$ 4,108	\$ 1,877	\$ 7,831	\$ 6,891
Dividends declared	4,940	4,856	9,859	9,695
Dividends paid in cash	3,724	3,713	7,445	8,552
Payout Ratio ^{1,2}	n/a	n/a	126%	141%
Payout Ratio with DRIP ^{1,2}	n/a	n/a	95%	124%

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

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

Dividend Policy of the Company

Acadian declares dividends from its available cash to the extent determined prudent by the Board of Directors. Dividends are paid on or about the 15th day following each dividend record date.

Total dividends declared to shareholders during the three months ended June 24, 2023 were \$4.9 million, or \$0.29 per share, consistent with the same period of 2022. The Payout Ratio for the second quarter, which represents the amount of dividends declared as a percentage of the Free Cash Flow generated, is not considered meaningful given the traditionally low level of activity during the quarter.

Acadian has in place a dividend reinvestment plan (“DRIP”) effective with eligible shareholders, whereby Canadian resident shareholders may elect to automatically have their dividends reinvested in additional shares issued directly from the treasury of the Company. During the three months and six months ended June 24, 2023, Acadian issued 75,161 and 148,618 common shares, respectively, in accordance with the DRIP.

Macer Forest Holdings Inc. (“Macer”), which owns approximately 46% of the outstanding common shares of Acadian, participates in the DRIP for 50% of dividends payable to it.

Operating and Market Conditions

Favourable weather, which allowed harvest to continue later into the winter and to begin earlier after the spring thaw, combined with increased contractor availability, resulted in sales volume of 177,000 m³, excluding biomass, for the second quarter, which is 18% higher than the same period in 2022.

The weighted average selling price, excluding biomass, for the second quarter was 9% higher compared to the prior year period. Pricing for softwood sawlogs increased 14% compared to the prior year period driven by strong demand, while hardwood sawlog pricing decreased 9% due to declines in end use markets. Demand remained stable for softwood pulpwood, however, pricing decreased 9% year-over-year due to an unfavourable customer and product mix. Hardwood pulpwood pricing increased 12% over the same period of 2022, though pricing and demand began to weaken as a result of higher regional supply. Biomass prices were 88% higher due to favourable market conditions.

Segmented Results of Operations

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

Three Months Ended June 24, 2023					
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated	
Sales volumes (000s m ³)	147.5	36.7	—	184.2	
Sales	\$ 16,569	\$ 4,138	\$ —	\$ 20,707	
Adjusted EBITDA ²	\$ 4,996	\$ 1,133	\$ (478)	\$ 5,651	
Adjusted EBITDA margin ²	30%	27%	n/a	27%	

Three Months Ended June 25, 2022					
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated	
Sales volumes (000s m ³)	123.2	33.5	—	156.7	
Sales	\$ 13,544	\$ 2,949	\$ —	\$ 16,493	
Adjusted EBITDA ¹	\$ 2,710	\$ 364	\$ (327)	\$ 2,747	
Adjusted EBITDA margin ¹	20%	12%	n/a	17%	

Six Months Ended June 24, 2023					
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated	
Sales volumes (000s m ³)	302.6	86.8	—	389.4	
Sales	\$ 34,476	\$ 8,593	\$ —	\$ 43,069	
Adjusted EBITDA ¹	\$ 9,879	\$ 2,232	(859)	\$ 11,252	
Adjusted EBITDA margin ¹	29%	26%	n/a	26%	

Six Months Ended June 25, 2022					
<i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands	Corporate	Consolidated	
Sales volumes (000s m ³)	326.6	131.3	—	457.9	
Sales	\$ 31,553	\$ 11,571	\$ —	\$ 43,124	
Adjusted EBITDA ¹	\$ 7,378	\$ 3,116	\$ (838)	\$ 9,656	
Adjusted EBITDA margin ¹	23%	27%	n/a	22%	

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

New Brunswick Timberlands

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

During the second quarter of 2023, Acadian's New Brunswick operations experienced no recordable safety incidents among employees or contractors.

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

	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Harvest (000s m ³)				
Softwood	58.6	48.3	145.5	176.4
Hardwood	47.2	42.5	109.4	110.7
Biomass	—	3.5	25.8	29.5
Total	105.8	94.3	280.7	316.6
Sales (000s m ³)				
Softwood	60.2	55.7	145.3	181.3
Hardwood	80.2	64.0	124.4	115.8
Biomass	7.1	3.5	32.9	29.5
Total	147.5	123.2	302.6	326.6
Sales Mix				
Softwood	41%	45%	48%	56%
Hardwood	54%	52%	41%	35%
Biomass	5%	3%	11%	9%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 4,238	\$ 4,023	\$ 10,486	\$ 12,197
Hardwood	7,899	5,641	12,760	10,146
Biomass	320	152	1,630	1,308
Total	\$ 12,457	\$ 9,816	\$ 24,876	\$ 23,651
Timber services and other	4,112	3,728	9,600	7,902
Sales	\$ 16,569	\$ 13,544	\$ 34,476	\$ 31,553
Adjusted EBITDA ¹	\$ 4,996	\$ 2,710	\$ 9,879	\$ 7,378
Adjusted EBITDA margin ¹	30%	20%	29%	23%

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

Sales for New Brunswick Timberlands in the second quarter were \$16.6 million compared to \$13.5 million during the prior year period. Sales volume, excluding biomass, increased by 17% primarily due to favourable weather conditions compared to the second quarter of the prior year and increased contractor availability. Biomass sales volume increased by 98% as compared to the prior year period due to favourable market conditions.

The weighted average selling price, excluding biomass, for the second quarter was \$86.36 per m³, or 7% higher than the prior year period, as a result of stable softwood sawlog and pulpwood prices, driven by strong demand, partially offset by lower hardwood sawlog pricing due to unfavourable end use markets. Biomass prices were 7% higher year-over-year due to favourable market conditions.

Operating costs and expenses were \$11.9 million during the second quarter, compared to \$10.9 million in the prior year period, reflecting higher sales volumes. Weighted average variable costs, excluding biomass, were 15% lower primarily as a result of lower fuel costs and shorter hauling distances, partially offset by increased contractor rates.

Adjusted EBITDA for the quarter was \$5.0 million compared to \$2.7 million in the prior year period and Adjusted EBITDA margin was 30% compared to 20% in the prior year period as a result of higher operating income.

During the first half of 2023, New Brunswick Timberlands' sales of \$34.5 million were 9% higher than the prior year period. The weighted average selling price, excluding biomass, increased 15%, however, sales volume, excluding biomass, decreased 9% year-over-year due to contractor availability noted previously. Operating costs and expenses of \$25.2 million during the first half of 2023 were \$0.9 million higher than the prior year period, due primarily to increased contractor rates. Adjusted EBITDA was \$9.9 million compared to \$7.4 million in the first half of 2022, and Adjusted EBITDA margin increased to 29% from 23%.

Maine Timberlands

Maine Timberlands owns and manages approximately 300,000 acres of freehold timberlands. All harvesting operations are performed by third-party contractors.

There were no recordable safety incidents amongst employees or contractors during the second quarter of 2023. The table below summarizes operating and financial results for Maine Timberlands:

	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Harvest (000s m ³)				
Softwood	27.7	19.5	57.0	96.6
Hardwood	10.7	5.4	26.2	27.7
Biomass	—	3.0	6.5	3.2
Total	38.4	27.9	89.7	127.5
Sales (000s m ³)				
Softwood	24.0	19.7	52.2	96.6
Hardwood	12.7	10.8	28.1	31.5
Biomass	—	3.0	6.5	3.2
Total	36.7	33.5	86.8	131.3
Sales Mix				
Softwood	65%	59%	60%	74%
Hardwood	35%	32%	32%	24%
Biomass	—	9%	8%	2%
Total	100%	100%	100%	100%
Results (\$000s)				
Softwood	\$ 2,737	\$ 1,662	\$ 5,373	\$ 8,449
Hardwood	1,182	1,127	2,734	2,853
Biomass	—	6	60	10
Total	\$ 3,919	\$ 2,795	\$ 8,167	\$ 11,312
Timber services and other	219	154	426	259
Sales	\$ 4,138	\$ 2,949	\$ 8,593	\$ 11,571
Adjusted EBITDA ¹	\$ 1,133	\$ 364	\$ 2,232	\$ 3,116
Adjusted EBITDA margin ¹	27%	12%	26%	27%

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

Sales for Maine Timberlands during the second quarter totaled \$4.1 million compared to \$2.9 million in the prior year period. Sales volume, excluding biomass, increased 20% reflecting an earlier start to operations and increased contractor availability, as compared to the same period in the prior year.

In U.S dollar terms, the weighted average selling price, excluding biomass, was \$79.55 per m³, compared to \$71.39 per m³ during the same period of 2022, driven primarily by higher softwood sawlog prices benefiting from favourable market dynamics. The weighted average selling price, excluding biomass, in Canadian dollar terms was \$106.92 per m³, compared to \$91.13 per m³ during the same period of 2022, being further impacted by foreign exchange rates.

Operating costs and expenses for the second quarter were \$3.1 million, compared to \$2.6 million during the same period in 2022, reflecting higher harvesting activity. Weighted average variable costs, excluding biomass, increased 5% primarily as a result of higher contractor rates.

Adjusted EBITDA for the quarter was \$1.1 million compared to \$0.4 million in the prior year period and Adjusted EBITDA margin was 27%, up from 12% in the prior year period.

During the first half of 2023, Maine Timberlands' sales were \$8.6 million compared to \$11.6 million in the first half of 2022. Maine Timberlands' weighted average selling price, excluding biomass, increased 14% in Canadian dollar terms, and 8% in U.S. dollar terms, however sales volume, excluding biomass, was 37% lower. Operating costs and expenses of \$6.5 million during the first half of 2023 were \$2.0 million lower than the prior year period, as a result of lower harvesting activity partially offset by higher contractor rates.

Carbon Credit Project¹

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.

On June 8, 2023, 770,071 voluntary carbon credits were registered on the American Carbon Registry and made available for sale under the project name Anew – Katahdin Forestry Project, and have been recorded as inventory in our June 24, 2023 interim condensed consolidated financial statements.

The total volume of credits expected to be generated from the project over the 10-year crediting period has increased from the initial estimate of 1.6 million credits to 1.9 million credits. Actual credit issuances will be adjusted each reporting period based on actual harvesting, natural disturbances, and other factors, as well as periodic updating for inventory and verification activities.

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 \$17.0 million as at June 24, 2023, 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 8, 2023, the Corporation renewed its Normal Course Issuer Bid ("NCIB") by filing a notice of intention with the TSX to purchase for cancellation up to 847,944 common shares during the period commencing February 14, 2023 and ending February 13, 2024, representing 5% of the 16,958,881 common shares outstanding as of January 31, 2023. The previous NCIB expired February 13, 2023. During the three months and six months ended June 24, 2023, 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, 2022.

OUTLOOK¹

North American inflation concerns persist, and interest rates continue to increase, which has put near-term pressure on end use markets. However, we remain confident that the stability of the northeastern forestry sector, combined with the long-term demand for new homes and repair and remodel activity, will support the demand for our products. Consensus forecast for U.S. housing starts has risen to approximately 1.37 million starts in 2023.

We experienced increased contractor availability during the second quarter and expect to maintain this capacity throughout the remainder of the year. Inflation continues to impact our financial results through elevated contractor rates and fuel surcharges.

Demand for Acadian's sawlogs is mainly driven by regional supply and demand, meaning that the stable demand experienced in the first half of 2023 is expected to continue. Pricing for softwood sawtimber is expected to remain stable, however, pricing for hardwood sawtimber may weaken, reflecting the recent weakness in hardwood lumber pricing. While regional inventories of hardwood pulpwood have been replenished and demand has begun to slow, this market is expected to remain stable. Softwood pulpwood markets are expected to remain at the improved levels experienced in 2022.

SELECTED CONSOLIDATED QUARTERLY INFORMATION

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

(CAD thousands, except per share data and where indicated)	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3 ²
Sales volume (000s m ³)	184.2	205.2	230.5	229.4	156.7	301.2	290.1	270.9
Sales	\$ 20,707	\$ 22,362	\$ 23,755	\$ 23,594	\$ 16,493	\$ 26,631	\$ 25,946	\$ 24,488
Adjusted EBITDA ¹	5,651	5,601	4,058	4,480	2,747	6,909	6,315	5,394
Free Cash Flow ¹	4,108	3,723	2,000	3,260	1,877	5,014	5,149	3,853
Net income	5,813	5,621	22,002	4,831	4,516	4,158	6,541	344
Per share – basic and diluted	\$ 0.34	\$ 0.33	\$ 1.30	\$ 0.29	\$ 0.27	\$ 0.25	\$ 0.39	\$ 0.02

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 were applied to the selected consolidated quarterly information for Q3 2021 presented above. 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.

Results are impacted by seasonality. Harvest activity is highest during the winter months, when the ground is frozen, providing a solid base for 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 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 gains or losses on Acadian's U.S. dollar-denominated debt being recorded in other comprehensive income rather than through profit and loss during for

¹The following contains forward-looking information about Acadian Timber Corp.'s outlook for the remainder of 2023 and future expectations. Reference should be made to the section entitled "Cautionary Statement Regarding Forward-Looking Information and Statements" for further details. For a description of material factors that could cause actual results to differ materially from the forward-looking information in the following, please see the Risk Factors section of Acadian's most recent Annual Report and Annual Information Form available on our website at www.acadiantimber.com or www.sedar.com.

all quarters presented for 2022. During the fourth quarter of 2022, Acadian recorded a fair value adjustment gain on timberlands which increased net income by \$18.8 million.

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 2022 consolidated financial statements and Note 2 of Acadian's June 24, 2023 interim condensed consolidated financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Related Party Transactions

There were no related party transactions during the second quarter other than shares issued to Macer in accordance with the DRIP, described under the heading Dividend Policy of the Company.

Contractual Obligations

The Company has two significant contractual obligations. The Fibre Supply Agreement between the Company and Twin Rivers Paper Company ("Twin Rivers") was transferred to Groupe Lebel during the first quarter of 2023 as part of the sale of the lumber mill in Plaster Rock, New Brunswick from Twin Rivers to Groupe Lebel. The agreement expires in 2026, subject to a five-year extension at the option of Groupe Lebel. The provision of timber services under a Crown License Agreement at the direction of Twin Rivers has a term equal to the term of the Crown License, including any renewal terms.

The table below summarizes the Company's long term debt obligations as at June 24, 2023:

(CAD thousands)	Total	Payments Due by Period			
		Remainder (2023)	1 to 3 Years (2024-2026)	4 to 5 Years (2027-2028)	After 5 Years (>2028)
Term facilities					
Tranche due March 6, 2025 ¹	\$ 19,469	—	19,469	—	—
Tranche due March 6, 2025 ¹	22,768	—	22,768	—	—
Tranche due March 6, 2027 ¹	42,237	—	—	42,237	—
Tranche due March 6, 2030 ¹	21,118	—	—	—	21,118
	\$ 105,592	\$ —	\$ 42,237	\$ 42,237	\$ 21,118
Interest payments	\$ 10,480	\$ 1,486	\$ 6,808	\$ 1,454	\$ 732

1. Represents principal of the U.S. dollar denominated term facilities with a U.S. to Canadian dollar conversion rate of 1.3199 and excludes unamortized deferred financing costs.

RISK FACTORS

Risk factors are discussed in the Company's MD&A for the year ended December 31, 2022.

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 the number and timing of carbon credits that will be successfully registered and available for sale. Actual credit issuances will be adjusted each reporting period based on actual harvesting, natural disturbances and other factors, as well as periodic updating for inventory and verification activities.*
- *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 and pricing 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 future contractor availability, which may be impacted by regional supply of trained contractors and changes in the demographics of the available workforce.*

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 24, 2023 and the Management Information Circular dated March 24, 2023 and other filings of Acadian made with securities regulatory authorities, which are available on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A based on information currently available to management and should not be relied upon as representing Acadian's views as of any date subsequent to the date of this MD&A. Acadian assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as may be required by applicable law.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

<i>As at</i> <i>(CAD thousands)</i>	Note	June 24, 2023	December 31, 2022
Assets			
Current assets			
Cash		\$ 3,978	\$ 6,230
Accounts receivable and other assets		6,470	8,265
Current income taxes receivable		597	—
Inventories	3	14,859	1,850
		25,904	16,345
Timber	4	426,418	437,365
Land, roads, and other fixed assets		86,989	87,986
Intangible asset		6,140	6,140
Total assets		\$ 545,451	\$ 547,836
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 7,065	\$ 11,206
Current income taxes payable		—	20
Dividends payable to shareholders		4,940	4,897
		12,005	16,123
Long-term debt	5	105,238	107,937
Deferred income tax liabilities, net		121,876	120,053
Total liabilities		239,119	244,113
Shareholders' equity	6	306,332	303,723
Total liabilities and shareholders' equity		\$ 545,451	\$ 547,836

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(unaudited)

<i>(CAD thousands, except per share data)</i>	Note	Three Months Ended		Six Months Ended	
		June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Sales		\$ 20,707	\$ 16,493	\$ 43,069	\$ 43,124
Operating costs and expenses					
Cost of sales		12,938	11,433	28,064	29,102
Selling, administration and other		2,103	1,828	3,961	3,894
Silviculture		366	485	367	486
Depreciation and amortization		83	63	156	120
		15,490	13,809	32,548	33,602
Operating income		5,217	2,684	10,521	9,522
Interest expense, net		(771)	(763)	(1,580)	(1,500)
Other items					
Fair value adjustments and other		3,350	4,430	6,533	4,158
Gain on sale of timberlands and other fixed assets		351	—	575	14
Income before income taxes		8,147	6,351	16,049	12,194
Income tax expense	10	(2,334)	(1,835)	(4,616)	(3,520)
Net income		\$ 5,813	\$ 4,516	\$ 11,433	\$ 8,674
Net income per share – basic and diluted	7	\$ 0.34	\$ 0.27	\$ 0.67	\$ 0.52

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Net income	\$ 5,813	\$ 4,516	\$ 11,433	\$ 8,674
Other comprehensive income / (loss)				
Items that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain / (loss)	(2,225)	1,232	(1,365)	679
Comprehensive income	\$ 3,588	\$ 5,748	\$ 10,068	\$ 9,353

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

Six Months Ended June 24, 2023 <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balances as at December 31, 2022		\$ 142,765	\$ 101,992	\$ 31,345	\$ 27,621	\$ 303,723
Changes during the period						
Net income		—	11,433	—	—	11,433
Other comprehensive loss		—	—	—	(1,365)	(1,365)
Shareholders' dividends declared	11	—	(9,859)	—	—	(9,859)
Common shares issued - DRIP	6	2,400	—	—	—	2,400
Balances as at June 24, 2023		\$ 145,165	\$ 103,566	\$ 31,345	\$ 26,256	\$ 306,332

Six Months Ended June 25, 2022 <i>(CAD thousands)</i>	Note	Common Share Capital	Retained Earnings	Revaluation Surplus	Currency Translation	Shareholders' Equity
Balances as at December 31, 2021		\$ 139,394	\$ 85,953	\$ 41,638	\$ 24,500	\$ 291,485
Changes during the period						
Net income		—	8,674	—	—	8,674
Other comprehensive gain		—	—	—	679	679
Shareholders' dividends declared	11	—	(9,695)	—	—	(9,695)
Common shares issued - DRIP	6	1,126	—	—	—	1,126
Balances as at June 25, 2022		\$ 140,520	\$ 84,932	\$ 41,638	\$ 25,179	\$ 292,269

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Cash provided by (used for):				
Operating activities				
Net income	\$ 5,813	\$ 4,516	\$ 11,433	\$ 8,674
Adjustments to net income:				
Income tax expense	2,334	1,835	4,616	3,520
Depreciation and amortization	83	63	156	120
Fair value adjustments and other	(3,350)	(4,430)	(6,533)	(4,158)
Gain on sale of timberlands and other fixed assets	(351)	—	(575)	(14)
Income taxes paid	(1,973)	(347)	(2,368)	(683)
Net change in non-cash working capital balances and other	1,181	1,856	(1,949)	657
	3,737	3,493	4,780	8,116
Financing activities				
Dividends paid to shareholders	(3,724)	(3,713)	(7,445)	(8,552)
Investing activities				
Additions to timber, land, roads, and other fixed assets	(146)	(39)	(177)	(103)
Proceeds from sale of timberlands and other fixed assets	360	—	590	14
	214	(39)	413	(89)
Increase / (decrease) in cash during the period	227	(259)	(2,252)	(525)
Cash, beginning of period	3,751	7,050	6,230	7,316
Cash, end of period	\$ 3,978	\$ 6,791	\$ 3,978	\$ 6,791

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

	Three Months Ended		Six Months Ended	
<i>(CAD thousands)</i>	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Accounts receivable and other assets	\$ 3,810	\$ 3,477	\$ 1,795	\$ 2,520
Inventory	3,004	2,212	1,104	724
Accounts payable and accrued liabilities	(3,957)	(2,992)	(4,141)	(2,534)
Other	(1,676)	(841)	(707)	(53)
	\$ 1,181	\$ 1,856	\$ (1,949)	\$ 657

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 timber products include softwood and hardwood sawlogs, pulpwood and biomass by-products sold to approximately 90 regional customers. Acadian also develops carbon credits for sale in voluntary carbon credit markets.

Acadian’s operations are subject to seasonal variations and, as a result, Acadian’s operating results vary from quarter to quarter. Harvesting activity can be compromised by inaccessibility to some sites during wet seasons, resulting in decreased harvest levels. Results of one quarter will not be indicative of results that may be achieved in other quarters or for the full year.

As at June 24, 2023, Macer Forest Holdings Inc. owns 7,845,816 shares representing approximately 46% 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 2022 consolidated financial statements, except as included below under “Carbon credit inventory”. 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, 2022.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of Acadian on July 26, 2023.

Carbon credit inventory

During the quarter, Acadian completed its first registration of carbon credits on a voluntary carbon registry system, participation in which requires Acadian to balance harvest and growth, and requires long term planning, annual reporting, periodic carbon inventory verification, and maintenance of the existing sustainable forestry certification.

The value of carbon credits expected to be developed is initially recorded at fair value as part of the timber asset in accordance with IAS 41 Agriculture. Once registered on a carbon registry system and made available for sale, the amount attributable to the carbon credits initially recorded within the timber asset is reclassified to inventory.

Carbon credit inventory is subsequently measured at the lower of cost and net realizable value.

Adoption of New Accounting Standards

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors re: Definition of Accounting Estimates

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The adoption of these amendments will not have a material impact on the consolidated financial statements.

3. INVENTORIES

<i>As at</i> <i>(CAD thousands)</i>	June 24, 2023	December 31, 2022
Carbon credits	\$ 14,113	\$ —
Log inventory	746	1,850
Total	\$ 14,859	\$ 1,850

During the quarter, 770,071 carbon credits were registered on a carbon registry system and made available for sale. There were no sales during the quarter.

4. TIMBER

<i>(CAD thousands)</i>	
Balance as at December 31, 2021	\$ 394,063
Disposals	(1)
Gains arising from growth	34,705
Reduction arising from harvest	(24,080)
Gain from fair value price and other changes	23,253
Foreign exchange	9,425
Balance as at December 31, 2022	\$ 437,365
Disposals	(1)
Transfer to carbon credit inventory (Note 3)	(14,113)
Gains arising from growth	17,401
Reduction arising from harvest	(10,140)
Foreign exchange	(4,094)
Balance as at June 24, 2023	\$ 426,418

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 as well as transfers of registered carbon credits to inventory. 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. Once registered on a carbon registry system and made available for sale, the amount attributable to the carbon credits initially recorded within the timber asset determined by reference to the annual appraisal of the timberlands is reclassified to inventory.

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.

5. LONG TERM DEBT

<i>As at</i> <i>(CAD thousands)</i>	June 24, 2023	December 31, 2022
Term facilities	\$ 105,592	\$ 108,352
Less:		
Deferred debt issuance costs	(354)	(415)
Total	\$ 105,238	\$ 107,937

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%. Effective April 1, the Revolving Facility bears interest at floating rates based on the Secured Overnight Financing Rate plus applicable margin, as a result of the decommissioning of LIBOR. Floating interest rates give rise

to interest rate risk as net income and cash flows may be negatively impacted by fluctuations in interest rates. There are no scheduled repayments of principal required prior to the maturity dates of the Term Facilities.

As at June 24, 2023, Acadian had borrowed U.S. \$80.0 million (December 31, 2022 – U.S. \$80.0 million) under the Term Facilities and U.S. \$nil (December 31, 2022 – \$nil) under the Revolving Facility. U.S. \$1.7 million of the Revolving Facility is reserved to support the minimum cash balance requirement of the Term Facilities. As security for these facilities, Acadian granted the lenders a security interest over all its assets. The facilities are subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of a maximum loan-to-value ratio. Acadian is in compliance with all covenants as at June 24, 2023, and December 31, 2022.

Acadian has a \$2.0 million Canadian dollar denominated revolving credit facility with a major Canadian bank for general corporate purposes. This facility bears interest at floating rates based on bank prime rates plus applicable margin and is due on demand. No amounts were drawn on this facility as at June 24, 2023, or December 31, 2022.

The fair value of the Term Facilities as at June 24, 2023 is \$97.9 million (December 31, 2022 – \$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.

6. SHAREHOLDERS' EQUITY

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

Acadian has in place a dividend reinvestment plan ("DRIP") 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 TSX for the five trading days immediately preceding the relevant dividend payment date, which is typically on or about the 15th of April, July, October and January. During the three months and six months ended June 24, 2023, Acadian issued 75,161 and 148,618 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 six months ended June 24, 2023, 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, 2022	16,885,424	\$ 142,765
Common shares issued - DRIP	148,618	2,400
Balance as at June 24, 2023	17,034,042	\$ 145,165

7. NET INCOME PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Weighted average number of common shares – basic and diluted	17,016,697	16,732,832	16,988,945	16,710,792

8. SEGMENTED INFORMATION

Acadian's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. Acadian has two operating segments: NB Timberlands and Maine Timberlands. Adjusted EBITDA is used to evaluate the operating performance of reportable segments. Adjusted EBITDA is defined as net income before interest, income taxes, fair value adjustments, recovery of or impairment of land and roads and depreciation and amortization.

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

Three Months Ended June 24, 2023 (CAD thousands)	Total	NB Timberlands	Maine Timberlands
Sales			
Softwood	\$ 6,975	\$ 4,238	\$ 2,737
Hardwood	9,081	7,899	1,182
Biomass	320	320	—
Timber services and other sales	4,331	4,112	219
Total sales	20,707	16,569	4,138
Operating costs and expenses			
Cost of sales	12,938	10,386	2,552
Selling, administration and other	1,625	1,130	495
Silviculture	366	336	30
Depreciation and amortization	83	54	25
	15,012	11,906	3,102
	5,699	4,663	1,036
Corporate and other expenses	(482)		
Operating income	5,217		
Interest expense, net	(771)		
Fair value adjustments and other	3,350		
Gain on sale of timberlands and other fixed assets	351		
Income before income taxes	\$ 8,147		

Three Months Ended June 24, 2023 (CAD thousands)	NB Timberlands	Maine Timberlands
Operating income	\$ 4,663	\$ 1,036
Add: Depreciation and amortization	54	25
Add: Gain on sale of timberlands and other fixed assets	279	72
Adjusted EBITDA	\$ 4,996	\$ 1,133

As at June 24, 2023 (CAD thousands)	NB Timberlands	Maine Timberlands
Non-current assets	\$ 337,653	\$ 195,940
Total assets	\$ 345,074	\$ 198,079

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

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

<i>As at December 31, 2022</i> <i>(CAD thousands)</i>	NB Timberlands	Maine Timberlands
Non-current assets	\$ 336,047	\$ 170,881
Total assets	\$ 345,252	\$ 172,942

Six Months Ended June 24, 2023			
(CAD thousands)			
	Total	NB Timberlands	Maine Timberlands
Sales			
Softwood	\$ 15,859	\$ 10,486	\$ 5,373
Hardwood	15,494	12,760	2,734
Biomass	1,690	1,630	60
Timber services and other sales	10,026	9,600	426
Total sales	43,069	34,476	8,593
Operating costs and expenses			
Cost of sales	28,064	22,585	5,479
Selling, administration and other	3,102	2,152	950
Silviculture	367	337	30
Depreciation and amortization	148	100	48
	31,681	25,174	6,507
	11,388	9,302	2,086
Corporate and other expenses	(867)		
Operating income	10,521		
Interest expense, net	(1,580)		
Fair value adjustments and other	6,533		
Gain on sale of timberlands and other fixed assets	575		
Income before income taxes	\$ 16,049		

Six Months Ended June 24, 2023		
(CAD thousands)		
	NB Timberlands	Maine Timberlands
Operating income	\$ 9,302	\$ 2,086
Add: Depreciation and amortization	100	48
Add: Gain on sale of timberlands and other fixed assets	477	98
Adjusted EBITDA	\$ 9,879	\$ 2,232

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

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

Approximately 41% and 35% of total sales during the three months and six months ended June 24, 2023 were originated with customers domiciled in the U.S. and the balance in Canada (June 25, 2022 – 47% and 36%). Approximately 34% and 30% of total sales were denominated in U.S. dollars during the same period (June 25, 2022 – 40% and 40%).

Acadian sells its products to many forest products companies in North America. For the three months and six months ended June 24, 2023, sales to the largest and next largest customer accounted for 24% and 17%, and 14% and 13%, respectively (June 25, 2022 – 15% and 15%, and 18% and 12% respectively).

9. FINANCIAL INSTRUMENTS

Financial Risk management - Foreign Currency Risk

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 \$4.2 million and \$2.8 million for the three months and six months ended June 24, 2023.

10. INCOME TAXES

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

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Current income tax expense	\$ 666	\$ 100	\$ 1,740	\$ 1,223
Deferred income tax expense	1,668	1,735	2,876	2,297
Total income tax expense	\$ 2,334	\$ 1,835	\$ 4,616	\$ 3,520

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

<i>(CAD thousands)</i>	Three Months Ended		Six Months Ended	
	June 24, 2023	June 25, 2022	June 24, 2023	June 25, 2022
Income taxes at statutory rate	\$ 2,362	\$ 1,842	\$ 4,654	\$ 3,536
Foreign tax rate differential	(14)	(7)	(24)	(16)
Changes in estimates related to prior years	(14)	—	(14)	—
Total income tax expense	\$ 2,334	\$ 1,835	\$ 4,616	\$ 3,520

11. DIVIDENDS TO SHAREHOLDERS

Acadian pays quarterly dividends to the extent determined prudent by the Board of Directors. Total dividends declared for the three months and six months ended June 24, 2023 were \$4.9 million and \$9.7 million, respectively (June 25, 2022 – \$4.9 million and \$9.7 million) or \$0.29 and \$0.58 per share (June 25, 2022 – \$0.29 and \$0.58 per share).

12. SUBSEQUENT EVENT

On July 15, 2023, Acadian issued 74,199 common shares in accordance with the DRIP.

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 Shepariski
President and
Chief Executive Officer
Acadian Timber Corp.

MANAGEMENT

Adam Shepariski
President and
Chief Executive Officer
Acadian Timber Corp.

Susan Wood
Chief Financial Officer
Acadian Timber Corp.

CORPORATE AND SHAREHOLDER INFORMATION

HEAD OFFICE

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

Please direct your inquiries to:
Susan Wood
Chief Financial Officer
t. 506-737-2345
e. ir@acadiantimber.com

TRANSFER AGENT AND REGISTRAR

Shareholder inquiries relating to dividends, address changes and shareholder account information should be directed to the Company's transfer agent:

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

SHARE INFORMATION

Toronto Stock Exchange: ADN
Fully Diluted Shares Outstanding (June 24, 2023): 17,034,042
Targeted 2023 Quarterly Dividend: \$0.29 per share
Record Date: Last business day of each quarter
Payment Date: On or about the 15th day of each subsequent month

www.acadiantimber.com

The management discussion and analysis ("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 the number and timing of carbon credits that will be successfully registered and available for sale. Actual credit issuances will be adjusted each reporting period based on actual harvesting, natural disturbances and other factors, as well as periodic updating for inventory and verification activities; 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 and pricing 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 future contractor availability, which may be impacted by regional supply of trained contractors and changes in the demographics of the available workforce. 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 24, 2023 and the Management Information Circular dated March 24, 2023 and other filings of Acadian made with securities regulatory authorities, which are available on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to Acadian. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, Acadian cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A based on information currently available to management and should not be relied upon as representing Acadian's views as of any date subsequent to the date of this MD&A. Acadian assumes no obligation to update or revise these forward-looking statements to reflect new information, events, circumstances or otherwise, except as may be required by applicable law.

Acadian Timber Corp.
365 Canada Road
Edmundston, NB
E3V 1W2
acadiantimber.com



ACADIANTIMBER