WestPeak Research

January 29, 2016

Acadian Timber Corp. (TSE:ADN)

Forest & Paper Products – Forestry & Logging

Acadian Timber – Solid from the Ground Up

Company Profile

Acadian is a supplier of primary forest products in Eastern Canada and Northeastern United States. It is headquartered in Vancouver, BC and consists of 119 employees. Its forest products include softwood and hardwood sawlogs, softwood and hardwood pulpwood and biomass by-products. It owns and manages approximately 761,000 acres of freehold timberlands in New Brunswick and approximately 299,000 acres of freehold timberlands in Maine.

Cyclical Business Experiencing Macro Tailwinds

While Acadian has benefitted from a recovering North American housing market and economy, and a low CAD:USD exchange rate in 2015, it has not demonstrated significant growth potential and operates in a mature, cyclical industry. In 2016, we expect Acadian to continue taking advantage of the recovering housing market and low exchange rate, as well as benefitting from diminishing supply as a result of the mountain pine beetle epidemic in Western timberlands, low oil prices and the temporary removal of the Softwood Lumber Agreement between Canada and the United States. Due to its superior performance in 2015, however, we believe the majority of the upside is already priced in.

Valuation & Recommendation

Our twelve-month target price for Acadian is $19.09 per share. At EV/EBITDA of 14.5x compared to the peer median of 15.3, we conclude that the market has priced the stock fairly. This notion is reinforced by our DCF valuation of $17.83 per share. We recommend Acadian to investors seeking a low-risk investment with a favourable dividend yield.

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Equity Research	Canada
Price Target	**CAD$ 19.09**
Rating	Hold
Current Share Price, close	CAD$ 17.99
Total Return	6.11%

Key Statistics	
52 week H/L	$21.33/$15.40
Market Capitalization	$301M
Net Debt	$80M
Enterprise Value	$381M
Net Debt/Enterprise Value	21.1%
Diluted Shares Outstanding	16.73M
Free Float %	100%
Dividend Yield	5.56%
LTM P/E	7.8x
LTM EV/EBITDA	14.4x

WestPeak's Forecast	2015E	2016E	2017E
Revenue	$87.7M	$92.5M	$94.8M
EBITDA	$27.4M	$28.2M	$28.0M
EBIT	$26.9M	$27.7M	$27.4M
***Net Income**	N/A	N/A	N/A
EV/EBITDA	14.0x	13.5x	13.7x

*Forecasts for Net Income and earnings based multiples not available as a result of the company's accounting practices. See "Skewed Earnings".

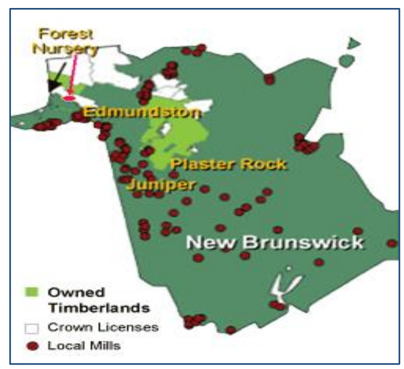
Source: Bloomberg, CapIQ, Thomson One, WestPeak Research

Business Overview

History

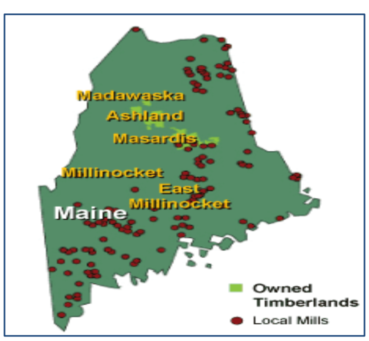
Acadian commenced its first year of operations and launched its IPO in January 2006 as the "Acadian Timber Income Fund". In its first year the fund focused on integrating two distinct timber operations – one in Maine and the other in New Brunswick – into one single entity. The NB timberlands were acquired from Fraser Papers Inc. in exchange for $108 million, 3,613,780 shares and a fibre supply agreement. Acadian also agreed to provide management services to 1.3 million acres of Crown timberlands and to continue operating a forest nursery in the province. The Maine timberlands were acquired through the $9 million acquisition of all the common membership interests of Katahdin Forest Management LLC ("KFM LLC") from subsidiaries of Brookfield Asset Management (NYSE: BAM, TSE: BAM.A). Brookfield also retained an indirect interest in KFM LLC of 4,507,030 Class B Interests, which were later converted to Acadian shares on a one-for-one basis in 2009. The fund also entered into a management agreement with Brookfield's wholly-owned subsidiary, Brookfield Timberlands Management LP. In 2009 the fund was transformed from an income trust into Acadian Timber Corp., a corporation with an equivalent dividend policy. As at January 1, 2016, Brookfield owned 7,513,262 common shares, representing approximately 45% of the outstanding shares of the Company.

New Brunswick



Acadian currently owns and manages approximately 761,000 acres of freehold timberlands, provides management services to approximately 1.3 million acres of Crown licensed timberlands, and owns a forest nursery in New Brunswick (NB). The lands have been used for timber production for more than a century and continue to provide wood for regional lumber mills, pulp mills and other users. The NB timberlands currently account for approximately 72% of Acadian's net sales. Approximately 76% of harvest operations are performed by third-party contractors and 24% by NB Timberlands employees. Approximately 38% of sales volume was sold as sawlogs, 42% as pulpwood and 22% as biomass as of the nine months ended September 26, 2015. There are 65 lakes on the property and numerous rivers and streams. The Crown timberlands management and forest nursery activities have a negligible impact on the company's bottom line and have remained relatively static over the years.

Maine



Acadian currently owns and manages approximately 299,000 acres of freehold timberlands in Maine. These timberlands account for approximately 28% of Acadian's net sales. All harvesting operations are performed by third-party contractors. The returns from the operations in the state are significantly impacted by the foreign exchange rate. A weaker Canadian dollar and stronger American dollar results in more favourable prices paid to Acadian. Third quarter sales volume in 2015 had a significantly higher proportion of pulpwood compared to the historical 50% sold as sawlogs, 42% sold as pulpwood and 8% sold as biomass.

Products & Customers

Softwood and Hardwood Sawlogs

Softwood sawlogs are generally employed in homes as solid softwood dimension lumber and softwood specialty products. Hardwood sawlogs are also mainly used in home construction and renovation as hardwood lumber and hardwood specialty products.

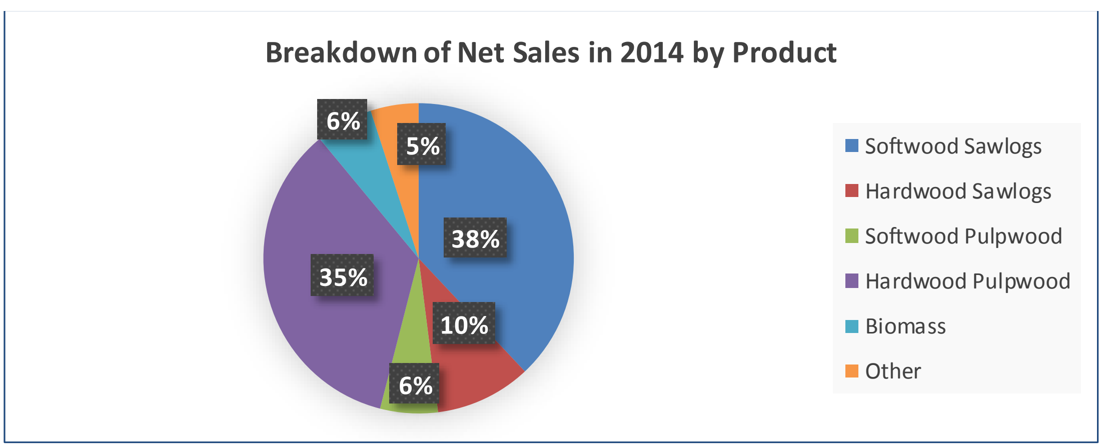
Softwood and Hardwood Pulpwood

Both softwood and hardwood pulpwood are used to make pulp, paper, board and cellulose-based products.

Biomass

The end use for biomass is generally as bio fuel and the product has been gaining popularity in the last few years.

As seen in the breakdown below, Acadian's greatest exposure is to softwood sawlogs and hardwood pulpwood, while hardwood sawlogs, softwood pulpwood and biomass diversify the product base. These are sold to over 90 regional customers, which primarily consist of lumber mills, pulp mills and power plants. During the third quarter of 2015, 32% of consolidated sales were established with US domiciled customers, with the remainder in Canada, and 26% of consolidated sales were denominated in US dollars. Both of these figures are expected to increase due to higher demand expectations from increasing growth in housing starts south of the border. Acadian has well established relationships with its customers due to the contractual nature of its operations and the industry. However, this also leads to high customer dependence risk. As of September 2015, sales to the largest and next largest customer accounted for 27% and 9%, respectively.



Revenues & Costs

Acadian's revenue model is a production model, whereby the company's income is entirely generated through the sale of its forest products based on volume sold and the prices received. Although prices are negotiated with customers, the company has little influence over them as they are primarily market determined. While Acadian possesses a competitive advantage through well-established client relationships and a proven track record, the forestry and logging sub-sector is highly competitive and customers will change suppliers if offered a better price.

As a result of contractor-based operations the cost structure is also mainly variable since the majority of expenses associated with harvesting operations are a function of harvest levels. Reforestation and transportation costs are also included in the firm's variable costs. Fixed costs have historically accounted for a low percentage of total sales compared to industry standards, and include $2.3 million annually paid to Brookfield for administrative and advisory services. Capital expenditure requirements are low and predictable as they mainly consist of silviculture activities to benefit the long run sustainable yield of the timberlands. These are also slightly offset by annual dispositions of timberlands and other fixed assets. In 2014, capital expenditures were $318,000 while dispositions were $124,000.

Fundamentals

Sustainable Competitive Advantage

Given the contractual nature of dealings with customers, new relationships are very difficult to establish in the cyclical forestry and logging sector. This gives Acadian a significant competitive advantage as it has been successful in developing these relationships in the last decade and has a proven track record. Consequently, it is better equipped to weather the storm during the downturns of the economic cycle. For instance, in 2009, when the Canadian and American logging industries declined by 23.2% and 12.8%, respectively, Acadian's Revenue declined by only 6.6%. Acadian owns the forestland in which it operates, giving it the ability to hold supply when prices are low and sell when they bounce back, keeping margins high.

The locations in which the company operates also give it a geographical advantage as these timberlands generally have a lower risk of fires and have not been impacted by the mountain pine beetle unlike peers in the west. Furthermore, Acadian is positioned in a way in which there is significant upside when the American dollar is strong and the Canadian dollar is weak, which has historically been the case.

Growth Strategy

Considering the firm's revenue and cost structures and history, it has poor organic growth potential. As a competitor in a mature, cyclical industry annual performance is highly market driven. There is little to no room for R&D initiatives and most cost efficiencies have already been established. Since inception, Acadian has stated that it is actively pursuing business development opportunities in the US, Australasia and South America. Nonetheless, no transactions have occurred in the last decade and management has noted that markets for timberlands have become increasingly competitive over the years.

Stable Dividends

The silver lining to Acadian's low growth potential is its favourable dividend policy. Despite the stock price gaining over 30% in 2015, the dividend yield has remained higher than competitors. While a higher dividend yield is not necessarily indicative of good health by itself, it is important to note that the payout ratio has been decreasing as well. As of Sept. 26, 2015 the payout ratio (based on free cash flow) was 72% compared to 91% during the same period a year earlier. The quarterly dividend amount was increased at the beginning of the year from $0.20625 to $0.225, and then once again in the last quarter, from $0.225 to $0.25. Management disclosed large cash reserves and an unemployed revolving credit facility as reasons for the increase. For the same reasons, and given the expected growth in sales due to macroeconomic factors, we believe this dividend policy is sustainable in 2016 and 2017.

Skewed Earnings

The financial statements display Acadian's timberland, roads and other fixed assets based on market value rather than by historical book value. This is atypical for the industry. These assets are re-evaluated by a third party annually and any change to their market value is subtracted from or added to the company's net income. This method of accounting renders the company's earnings useless from a valuation perspective. For instance, due to highly competitive timberlands in 2014, an adjustment of approximately $51 million was made to the company's net income, leading to a figure which was far higher than the cash flows actually generated from operations. In addition, Acadian's long term debt was initially US$72.5M, but fluctuates with the foreign exchange rate as it is recorded in CAD. The loss or gain on this debt due to foreign exchange rate fluctuations is also recorded as part of the company's net income. For these reasons the company's net income and any earnings based valuation metrics such as the P/E ratio are difficult to forecast and not useful for valuation purposes. These adjustments are nullified in the cash flow statement and occur after EBIT, thus cash flow metrics, EV/EBITDA and EV/EBIT are all accurate.

Capital Structure

Liquidity & Borrowings

Acadian's primary sources of liquidity are its cash and cash equivalents of approximately $16 million (as of September 26, 2015), and a US$10 million revolving credit facility. Due to the seasonal nature of the business it is typical that cash reserves are generated in the first quarter of the year and are then drawn down during periods such as the second quarter when harvesting conditions are not ideal.

A secondary source of liquidity available to the company is a stand-by equity commitment of US$50 million with Brookfield, arranged on August 12, 2013. The equity commitment is structured so that Acadian may call on the equity commitment in exchange for the issuance of a number of common shares that corresponds to the amount of the equity commitment called, divided by the volume-weighted average of the trading price for Acadian's common shares on the Toronto Stock Exchange for a period of up to twenty trading days immediately preceding the date of the call, as approved by the Toronto Stock Exchange. Currently, no amounts have been drawn from the revolving credit facility or the equity commitment.

During the third quarter of 2015, Acadian completed a five-year extension of its existing loan facilities with Metropolitan Life Insurance Company. The facilities will now mature on October 1, 2020. These loan facilities include the above-mentioned revolving facility and a term credit facility of US$72.5 million, which is recorded as long-term debt on the balance sheet. The term facility now bears interest at a fixed rate of 3.01% (previously 3.97%). This will lead to an annual $0.7M interest expense reduction beginning in 2016. The revolving facility bears interest at floating rates based on 90 day LIBOR plus applicable margin once it is drawn. The fair value of the term facility as at September 26, 2015 is $97.3 million (December 31, 2014 – $87.0 million), and it fluctuates depending on the CAD:USD foreign exchange rate. We expect the fair value to increase above $100 million upon the next press release given the declining exchange rate. As collateral for these facilities, Acadian has granted the lenders a security interest over all of its assets. The facilities are subject to customary terms and conditions for Acadian, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders.

Deferred Taxes

For the Years Ended December 31 (CAD thousands)	**2014**	2013
Current income tax expense	**$ 841**	$ 51
Deferred income tax expense		
Origination and reversal of temporary differences	**19,821**	2,888
Benefit arising from previously unrecognized tax assets	**275**	104
Change of tax rates and imposition of new legislation	**—**	1,187
Other	**(682)**	(175)
Total income tax expense	**$20,255**	$ 4,055

The major components of income tax recognized in other comprehensive income:

For the Years Ended December 31 (CAD thousands)	**2014**	2013
Deferred tax arising on income and expenses recognized in other comprehensive income:		
Revaluation surplus	**$ 14,530**	$ (810)
Currency translation	**698**	473
Cash flow hedge	**(70)**	(68)
Total income tax expense / (benefit) recognized directly in other comprehensive income	**$ 15,158**	$ (405)

In 2013 and 2014 the company's tax rate was 36% and 32%, yet 99% and 96% of taxes were deferred, respectively. The actual taxes paid in those periods were $51,000 (0.30% of EBIT) in 2013 and $826,000 (3.94% of EBIT) in 2014. In the years prior, Acadian deferred all of its taxes. In its financial reports the company states that it benefits from "certain federal tax account balances which existed in the Company at the time of the Arrangement". It is clear that the majority of the taxes of 2014 were a result of the one-time increase in fair value of the timberlands due to the company's accounting practices. That does not, however, explain why the firm did not pay the statutory tax rates in NB and Maine on the real income that it generated. Although the majority of its peers benefit from little to no taxes as Real Estate Income Trusts (REIT), Acadian transformed from an income trust to a corporation in 2009 after the federal government announced, in October of 2006, that income trusts and limited partnerships would be taxed at the combined federal and provincial corporate tax levels by 2011. Previously, trusts and partnerships were permitted to avoid tax at the trust or partnership level by flowing their income through distributions to unitholders. We presume that the federal government allowed Acadian to convert to a corporation on a tax-deferred basis, and anticipate that the company will eventually attempt to convert to a REIT as it once did in 2007. We have modelled our Discounted Cash Flow (DCF) forecasts on the assumption that Acadian will continue to be taxed in the manner that it has in the past.

Shareholder Base

In total, there are 16,731,216 Acadian common shares outstanding and the company trades on the Toronto Stock Exchange. 9,387,004 shares, 56% of total outstanding shares, are held by institutional investors. These are generally traditional investment managers drawn to the company's favourable dividend policy and reduced risk due to ownership of real estate in the form of timberlands. Of these institutions, the largest holders are Brookfield Asset Management Inc. (44.9%), Mackenzie Financial Corporation (2.8%) and Pictet Asset Management Ltd. (2.6%). The average daily volume as of the last three months is approximately 20,000 shares. The short interest on the stock is low at approximately 2,000 shares or 0.02% of float.

Ownership Summary			
Type	Common Stock Equivalent Held	% of Total Shares Outstanding	Market Value (CAD in mm) [2]
Institutions [5]	9,361,593	55.95	168.4
Individuals/Insiders	58,300	0.35	1.1
Public and Other [3]	7,311,323	43.70	131.5
Total	16,731,216	100.00 [6]	301.0

Top Holders				
Holder	Common Stock Equivalent Held	% of Total Shares Outstanding	Market Value (CAD in mm) [2]	Position Date
Brookfield Asset Management Inc.	7,513,262	44.91	136.1	Mar-24-2015
Mackenzie Financial Corporation	475,900	2.84	8.6	Sep-30-2015
Pictet Asset Management Limited	439,595	2.63	8.0	Mar-31-2015
RBC Global Asset Management Inc.	343,000	2.05	6.2	Jun-30-2015
Brandes Investment Partners & Co.	188,850	1.13	3.4	Jun-30-2015

Macro Environment

Industry Overview

Acadian operates in a mature, highly competitive forestry and logging sector. According to IBISWorld, the Canadian logging industry generates $11.1 billion revenue and has grown at an annualized rate of 4.2% in the last five years. The American logging industry generates roughly $12 billion and has grown at an annualized rate of 2.5% in the last five years. The Canadian and American logging industries are expected to grow at an annualized rate of 1.5% and 1.1%, respectively, in the next five years. The industries are highly cyclical, experiencing significant ups and downs over the economic cycle. The higher growth rates in the prior half decade were attributable to a sector which was recovering from a global recession, while it is expected to stabilize slightly below pre-recession levels in the next five years. An industry growth level below the historical GDP growth rate is to be expected given the mature nature of the industry and the market it sells to. It has high barriers to entry including being highly capital intensive, having heavy regulation in the form of strict forest stewardship laws and employee safety measures, and having very little disruption potential. Despite these barriers, the sector has become increasingly competitive over the years as the larger, vertically integrated companies enjoy consistent demand for their products and exhibit higher-than-average revenue growth. The largest competitors in the industry are Weyerhaeuser Co. (NYSE: WY, Market Cap: $21.6 billion), Plum Creek Timber Co. Inc. (NYSE: PCL, Market Cap: $11.6 billion), West Fraser Timber Co. Ltd. (TSX: WFT, Market Cap: $4.4 billion) and Canfor Corp. (TSX: CFP, Market Cap: $2.8 billion). Weyerhaeuser is currently in the process of acquiring Plum Creek in order to combine the two largest timberland REITs and establish a timberland powerhouse.

Lumber Prices

North American lumber prices are representative of the prices Acadian receives for its products. They declined to multiyear lows in late August, and have recovered slightly since then. The combination of weak offshore export markets due to turbulence in Asian markets, the weak Canadian dollar, and the end of the Canada-US Softwood Lumber Agreement, resulting in a temporary removal of Canadian export taxes, is expected to maintain pressure on lumber prices into 2016. This will have the highest impact on softwood sawlogs. In 2016, management expects markets for hardwood sawlogs to remain stable at a positive level, the price of hardwood pulpwood to decline slightly, softwood pulpwood to continue experiencing challenges with the contracting demand for paper, and biomass prices to continue their steady growth. We believe management's forecast is reasonable. Instead of forecasting revenues according to a certain commodity price level in our DCF assumptions, we have opted to forecast revenues based on broad market factors such as the level of housing starts and lumber supply, which naturally affect the price of the commodity.

Housing Starts & Construction

The players in this industry are dependent on housing starts and ongoing housing construction as it is the most significant demand side factor for their softwood and hardwood sawlogs. Swings in American housing starts are significant whereas swings in Canada's housing starts are almost negligible since there are a very small quantity as a result of its low population. These fluctuations generally correlate with the state of the economy. For instance, in 2005, there were 2.1 million US housing starts due to a strong economy and imprudent lending activities. In 2009, during the recession, they bottomed at 553,900 houses. Since 2010, the housing scene has been in a recovery phase, displaying significant growth annually. The number of housing starts is expected to rise an annualized 6.8% over the five years to 2020, but it is not expected to reach prerecession levels again due to a change in lending policy. In 2016 the year over year growth rate is estimated above 15%. Ongoing construction activities, which make up the second largest demand side factor for sawlogs, are also expected to match this pace as home owners have more disposable income in a stabilized economy. The estimates in our DCF assume more conservative figures for growth in housing starts and ongoing construction in the next five years.

Pulp Industry

Demand from paper mills is the most significant demand side factor for Acadian's pulpwood products. Paper has been increasingly replaced by digital infrastructure over the past decade. The paper mill industry's revenue has declined an annualized 3.0% in the past five years according to Natural Resources Canada. Demand from paper mills has, therefore, decreased in the past five years, partially offsetting gains in demand from wood product manufacturing industries. Management expects this trend to continue for the foreseeable future and we have accounted for it in our estimates.

Mountain Pine Beetle Epidemic

In the western forests, the mountain pine beetle has devastated this industry in BC and Alberta. Dead trees are harvestable for 8-12 years, but the depleted stock is expected to catch up with producers in the coming years, leading to lower supply and an opportunity for eastern loggers such as Acadian to increase market share. Furthermore, the quality of sawlogs is significantly reduced in what will remain of the short-term timber base. Some of the upside to Acadian is offset by the fact that the US lumber market is expected to grow in order to compensate for the shrinking supply from the North. Nonetheless, reduced supply should provide upcoming tailwinds to realized sawlog prices and benefit Acadian in the long term.

Canada & Unites States Softwood Lumber Agreement

In April 2006, a Softwood Lumber Agreement was enacted between Canada and the United States. The agreement was established after several years of disputes over subsidized Canadian softwood lumber exports to the United States. It introduced a system of tiered taxes, and restrictions on Canadian lumber export volumes. The United States agreed to lift countervailing and antidumping duties in return, provided that lumber prices would remain above a certain range. With the expiration of the of the agreement in 2015, and a weak Canadian dollar, Canadian companies like Acadian may experience a slight increase in demand given the one-year prohibition on renegotiations of the agreement. We anticipate that the agreement will be re-enacted by the end of 2016.

Foreign Exchange

As many of the primary and secondary consumers of Acadian's products are American companies, the foreign exchange rate is important to the company's bottom line. Due to declining oil prices and a strengthening US dollar the average CAD:USD exchange rate during 2015 was 0.78. In December alone, the exchange rate hovered around 0.72. Given Canada's reliance on oil and the expectations for a prolonged oil supply glut, as well as the likely scenario that interest rates continue to rise in the US, we expect the average exchange rate to be 0.72 in 2016 and have assumed this in our DCF assumptions.

Global Oil Supply Glut

Players in Acadian's industry rely almost exclusively on land transportation for delivering their products and are therefore exposed to fluctuations in fuel cost. In addition, many customers are high-energy consumers and, as a result, benefit from low energy costs. The existing OPEC driven supply glut is likely to keep relevant transportation costs low for Acadian for at least the next twelve months.

Catalysts

Earnings Report

Acadian is expected to release Q4 2015 earnings on February 8, 2016. While operating earnings have been stable and growing, overall earnings are volatile and unpredictable as a result of the company's accounting methods. During the last quarter, the company reported a net loss of $2.9 million or $0.17/share, despite improved log prices and higher operating earnings. This was a result of a significant unrealized loss on long term debt due to the decreasing CAD:USD foreign exchange rate as the debt is denominated in USD. The earnings are not representative of the company's performance, but they certainly have some impact on the stock's price.

Timberland Acquisitions

While management has not been successful in acquiring timberlands in the last decade, they have been actively pursuing opportunities in South America and Australasia. During the third quarter of 2015 Acadian reported that it was pursuing six opportunities across these regions, but it have been unsuccessful as of yet. At this point markets in South America, specifically Brazil, look most favourable as its currencies are depreciating and becoming more suitable for international investors. Although we believe the potential for new acquisitions is low given the highly competitive nature of timberlands and the company's poor track record in terms of acquisitions, increasing cash and liquidity do yield some possibility for an acquisition in the future. A successful acquisition should cause the stock price to appreciate and will add an inorganic growth factor to the company that it currently lacks.

M&A Activity

There is potential for growth backed by Brookfield as the multi-billion dollar asset manager has a history of spinning off its businesses into meaningful entities with a focus on specific sectors. Industry reports also expect an increase in M&A activity, with the merger between Weyerhaeuser and Plum Creek shaking up the market.

Management Team

Mark Bishop replaced Reid Carter as the Chief Executive Officer and President of Acadian on May 1, 2015. Mr. Bishop has been the Senior Vice President, Timberland Investment Management, of Brookfield since 2006. With over 25 years of forest industry experience, he is also the timberland business development lead focused on South America and Australasia and oversees Brookfield's timberland operations in South America. Mr. Carter will remain on Acadian's board of directors. We expect Mr. Bishop to be compensated similarly to the $221,202 in cash and $128,625 in options that Mr. Carter received in 2014. Mr. Bishop's entry was accompanied by the return of Erika Reilly, Chief Financial Officer of Acadian and Senior Vice President of Brookfield Timberlands, from her maternity leave. She is responsible for the financial reporting, risk management, corporate finance and overall funding activities of Acadian Timber. Her compensation in 2014 was $66,633. We view the impact of these developments as neutral.

Overall, Acadian's management team has extensive experience in the forestry and logging industry, and has increased efficiency in operations and grown revenues year over year since 2011. The management's strength in streamlining operations is apparent in the trend of key margins. They have not, however, been successful in acquiring new timberlands despite the company's high liquidity.

Risks

Customer Dependence

Acadian has several customers on which it depends for consistently purchasing its products. In 2015 the largest and second largest customers accounted for 27% and 9% of net sales, respectively. The largest of these is Twin Rivers Paper Company Inc., which acquired Fraser Papers after it sold its timberlands to Acadian. Twin Rivers manages several lumber mills and pulp and paper mills to which Acadian supplies its products. It also has licenses to the Crown lands in New Brunswick that Acadian manages for an annual fee. Under the Fibre Supply Agreement that it has with Acadian, Twin Rivers has the right to reduce purchases by any amount subject to certain notice periods. Furthermore, any downturn in its business could materially affect Acadian as well.

Lumber and Pulp Mills Dependence

Acadian's financial performance depends on the state of the lumber and pulp and paper industries. Depressed commodity prices of lumber, pulp or paper may cause mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomic. Moreover, these operators may be required to temporarily suspend operations at one or more of their mills to bring production in line with market demand or in response to the market irregularities. Any of these circumstances could significantly reduce the amount of timber that such operators purchase from Acadian.

Broad Macro & Commodity Risks

As Acadian's customers depend on the housing and pulp markets, any decreases in the level of housing starts, repair and remodelling activity or demand for paper products could indirectly reduce Acadian's sales. Due to the cyclical nature of these businesses, periods of economic weakness could also hinder Acadian's performance as reduced spending by consumers and businesses impacts the demand for their products. A sharp increase in oil prices can significantly increase costs for Acadian and adversely impact its customers with energy-heavy operations. The financial performance of Acadian is dependent on the selling prices of its products. The markets for timber are cyclical and are influenced by a variety of factors beyond Acadian's control. For example, the market prices for timber can be affected by changes in regional and global demand, supply and economic conditions.

Foreign Exchange Fluctuations

All of the sales from the Maine timberlands and a portion of the sales from the New Brunswick timberlands are in US dollars, as well as the expenses incurred in Maine. A weaker American dollar and a stronger Canadian dollar has historically hurt Acadian and fluctuations materially affect its net sales and profit margins. All of its debt financing and interest payable is also in US dollars. Customers are also susceptible to currency value fluctuations which may negatively impact the sawmills and pulp and paper mills to which Acadian sells its fibre, and accordingly the quantity of fibre sales to such customers could decline.

Geographical and Regulatory Risk Pertaining to Timberlands

Weather conditions, timber growth cycles, access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict Acadian's harvesting, as may other factors, including damage by fire, insect infestation (primarily spruce budworm), disease, prolonged drought and other natural and man-made disasters. There is also substantial geographic concentration of these operations due to their close proximity form one another. There can be no assurance that Acadian will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows.

Acadian is subject to laws and regulations which relate to, among other things: the protection of timberlands, health and safety, the protection of endangered species, air and water quality, and timber harvesting practices. Such laws and regulations are subject to change and they can lead to a material impact on the firm's fixed costs. Furthermore, Aboriginal claims could adversely affect Acadian's ability to harvest timber.

Inability to Acquire Timberlands

Acadian's growth strategy is to acquire high-quality timberland investments with the objective of achieving appropriate risk-adjusted returns on its invested capital over the long-term. However, there is no certainty that Acadian will be able to find and complete sufficient investment opportunities that meet its investment criteria. Acadian's investment criteria considers, among other things, the financial, operating, governance and strategic merits of a proposed acquisition. Competition for assets is significant and competition from other well-capitalized investors or companies may significantly increase the purchase price or prevent Acadian from completing an acquisition.

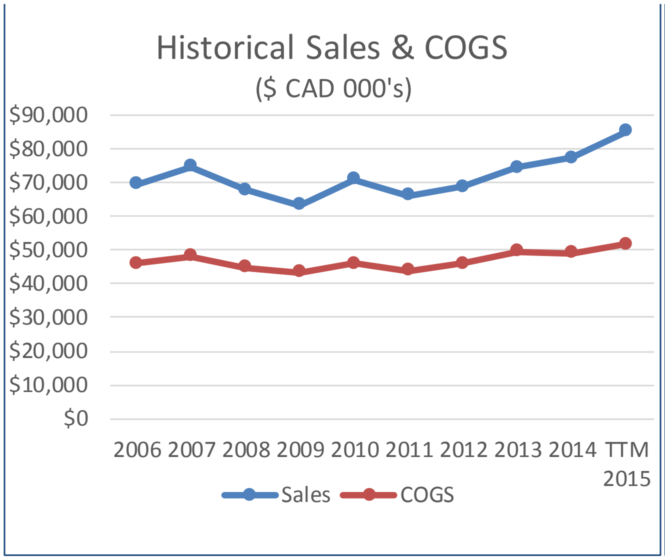
Liquidity Risk

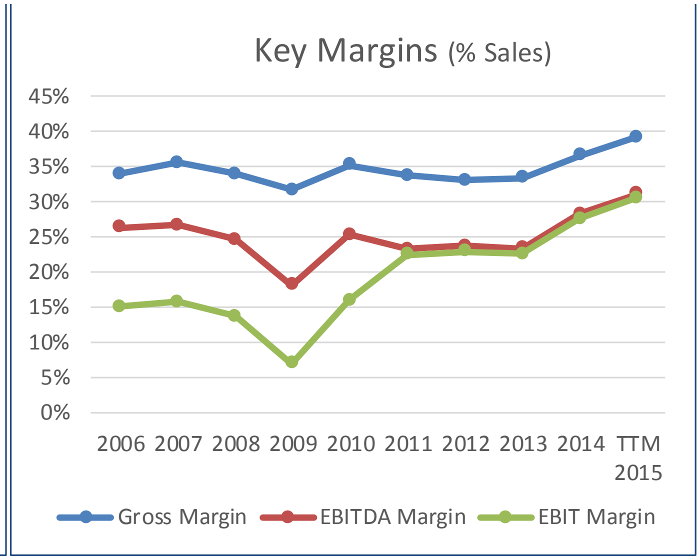
Due to the firm's small size the average daily trading volume of its stock is very low. In a volatile environment there is a liquidity risk for larger investments as the stock may not be able to be purchased or sold quickly enough.

Valuation

Discounted Cash Flow (DCF) Assumptions

Revenues, Costs & Margins





Acadian's historical revenues and margins, consensus estimates, and forecasts of broad economic factors which influence the business are all considered when forecasting revenues and margins for the next five years. Over the past four years the company has increased both its revenues and operating margins in an impressive manner. Nevertheless, we attribute this strong performance to the cyclical nature of the business and the industry in which it operates – in the past few years the North American housing markets and economies have been recovering from the financial crisis. Therefore, a single, fixed growth rate is not applied to current revenues, and margins are not expected to resume their upward trend. Instead, revenues are considered on a year over year basis.

2015

With three strong quarters in 2015, and trailing twelve month (TTM) sales of $85.2 million, we expect the sales for the entire fiscal year to finish at $88.0 million. This number represents a 13.7% increase when compared to 2014 revenues. It can be attributed to approximately 15.5% and 7.7% gains in American and Canadian housing starts, respectively, 3.6% and 5.1% increase in domestic demand in the US and Canada, respectively, and an average CAD:USD foreign exchange far below 2014 levels (average of 0.78). Gains would have been higher if they were not offset by reduced log prices and further contraction of the pulp market.

2016

According to industry reports housing starts should continue their climb towards pre-recession levels and increase by 15.4% in 2016, in a similar fashion to the previous year. The CAD:USD exchange rate should remain low at an expected average of 0.72 given the prolonged oil supply glute. Domestic demand for forest products is expected to grow at 1.8% in the US and 1.6% in Canada, both far lower growth rates than the year prior. According to management lumber prices should continue experiencing headwinds in the short-term and the pulp industry should continue its slow decline. We expect sales in 2016 to total $92.5 million, a 5.1% growth rate in comparison to our 2015 estimates. This is in accordance with the consensus estimates found on S&P Capital IQ of $92.7 million.

2017

Consensus estimates for sales in 2017 are $99.6 million, whereas we expect sales to be approximately $94.8 million. Our figures are more bearish as we foresee a slight rebound in the CAD:USD exchange rate and expect housing starts to stagnate at around the 2016 levels. Domestic demand expectations are low at 0.7% growth in the US and 1.6% in Canada, and pulpwood should continue experiencing headwinds.

Our forecasts for the remaining three years of the model are highly speculative and account for the increased impact from the mountain pine beetle epidemic in the West, the eventual slowdown of the housing recovery, a reversal in the downward trend of the CAD:USD exchange rate, and modest growth rates for domestic demand in both countries. We anticipate that margins will not continue increasing, and will instead slightly regress towards 2014 levels as the oil supply glute softens and costs increase moderately by 2020, the terminal year of our forecasts

Depreciation, Depletion & Amortization

Depreciation, depletion and amortization are negligible, and have been forecasted based on their current value as percentage of net property, plant and equipment (PPE) of approximately 0.14%. The growth in Acadian's historical PPE on the balance sheet has been due to it's mark-to-market method of accounting and the appreciation in the fair value of its timberlands. We have forecasted PPE to remain relatively static, and therefore also the amount of depreciation, depletion and amortization, as we cannot predict such shifts in the market value of the timberlands.

Capital Expenditures

Acadian's capital expenditures have historically been very low as they mainly consist of silviculture activities to benefit the long run sustainable yield of the timberlands. While we don't see a need for increased expenditures, we have forecasted them in a prudent manner to the higher spectrum of their historical amounts. Nonetheless, they continue to represent less than 1% of sales, having very little impact on our valuation. Depreciation and amortization, and capital expenditures will remain in line with one another as Acadian maintains its capacity in the coming years.

Net Working Capital

We have forecasted current operating assets at 17% of sales and current operating liabilities at 28% of COGS, in line with the trailing twelve months. Although these rates are higher than historical averages, we believe them to be accurate as sales have significantly increased with the recovery of the housing market and the economy, and we expect receivables, inventories and payables to continue to rise in conjunction with the higher sales volume.

Effective Tax Rate

Given Acadian's complex tax structure and propensity to defer taxes, it's effective tax rate is not the same as the combined statutory tax rate of it's operations. In 2013 and 2014 the company's tax rate was 36% and 32%, respectively. However, when deferred taxes are not accounted for and we consider only the actual tax that Acadian paid in that period, and fair value adjustment to net income are ignored, it's effective tax rate plunges to 0.30% of EBIT in 2013 and 3.94% of EBIT in 2014. This is a significant difference and materially affects the firm's unlevered cash flows. In our cash flows forecast we have employed an effective tax rate of 3% in 2016 to accurately represent the tax that Acadian actually pays, and this is the rate used in our calculations for levered beta and WACC. This number is based on the historical effective tax rate, as well as the actual tax paid in the last three quarters. It gradually rises to 4% by the terminal year. In our financial statements forecasts we use a tax rate of 33%, but we assume the firm only pays the effective tax rate on its EBIT corresponding to our cash flows assumptions, and defers the remainder, adding it to the deferred income tax liability in the balance sheet. We believe this is a fair expectation considering the REIT-like manner in which the company has historically paid its taxes. Our expectation is that, like it did in 2007, when the tax increase on income trusts was announced, it will attempt to convert to a REIT structure like most of the other timberland operators sometime in the future. While we are confident that the company will not have to pay all of its deferred income tax liability, it does constitute high uncertainty as to what will actually need to be paid in the coming years. In the highly unlikely worst-case scenario that Acadian begins paying the entire 33% tax rate next year and into perpetuity, barring any one-time fair value adjustments, as well as its entire deferred income tax liability, its price target would be reduced to $10.40.

Fair Value Adjustments & Fluctuating Debt

Acadian's mark-to-market accounting method and exchange rate-sensitive long-term debt suggest that forecasts of the financial statements will not be precise. However, these elements are non-material and have no impact on our price target. Therefore, for simplicity's sake, we have not attempted to predict any changes in the market value of Acadian's timberlands on the financial statements forecasts, and we have kept long-term debt steady at the level found in last year's annual report. The amount of debt used in the levered beta, WACC and equity value calculation, however, is as of the last quarterly report at $95,950,000. Realistically, we expect that this amount has increased slightly in the last four months due to a lower CAD:USD exchange rate.

DCF Analysis

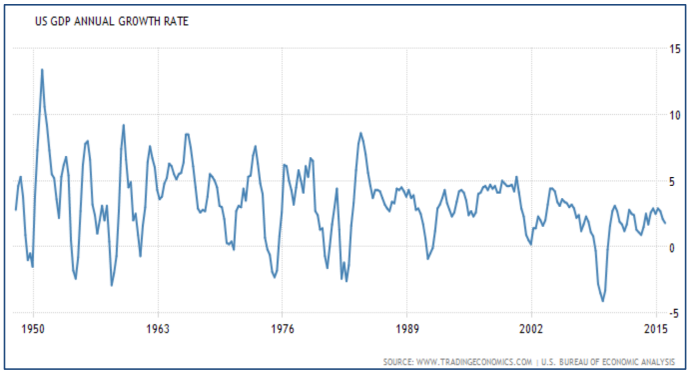
Beta

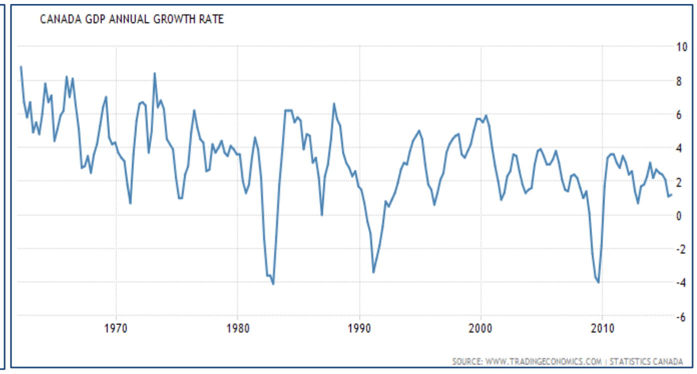
Acadian's beta varied significantly from 0.22 to 0.80, depending on the source of the information, and generally yielded an unreasonably low WACC in comparison to the industry. Consequently, beta is calculated manually by obtaining the 0.87 unlevered beta of the paper/forest products industry from Aswath Damodaran's website, which is converted to Acadian's levered beta based on it's debt to equity ratio (32.5%) and effective tax rate (3%). The resultant levered beta is 1.14, which we consider to be far more accurate and in line with the industry average beta of 1.52.

WACC

The discount rate for future cash flows is assumed to be the Weighted Average Cost of Capital (WACC), which is calculated using the Capital Asset Pricing Model (CAPM) method and uses our beta calculation. There are no preferred shares to account for. The Risk Free Rate is assumed to be the current yield on the U.S. 10 Year Treasury Note and the current Market Risk Premium is obtained from Aswath Damodaran's website. No size premium is applied and the resultant WACC is 6.63%, which is in line with the paper/forest products industry's cost of capital of 7.01%.

Perpetuity Growth Rate





Our DCF employs the perpetuity growth model. This method applies a constant, perpetual growth rate to the terminal year cash flows, and as a result, our valuation is highly influenced by the growth rate. The standard practice is to use a rate based on the historical average long-term track record of economic growth in the country, generally 2-4%. We use the lower 2% for several reasons. Acadian operates in mature Canadian and American logging industries, with trailing five-year growth rates of 4.2% and 2.5%, respectively, and forecasted growth rates slightly below 2% for the next five years. Broad-based growth rates also include high-growth firms and are therefore not entirely representative of a low-growth business such as Acadian. It has historically paid out most of it's earnings as dividends to shareholders and spent very little on reinvestment. The overall amounts of timberlands have slightly decreased since inception from 765,000 acres to 761,000 acres in NB and from 311,00 acres to 299,000 acres in Maine due to slight dispositions.

Even a one-point difference in the perpetual growth rate and discount rate can significantly alter the entire valuation of the company. For this reason, we have included a price target sensitivity table to depict the sensitivity of the valuation to different perpetual growth rates and WACCs.

Model Output

The model yields an enterprise Value of $378,197,518 and an equity Value of $298,259,518. The equity value is divided by the 16,731,216 outstanding shares, leading to a price target of $17.83. As of September 2015, Acadian's book value per share is $15.26 and we expect this to increase by the release of the annual report in the coming weeks. Since the firm marks its assets to market it is fair to assume that the book value per share amount is a prudent, but accurate representation of the company's value. Consequently, we believe the DCF output is reasonable.

Comparable Companies

Comparable companies consist of American timber REITs and other similar forestry and logging companies in North America. All of the comparable companies have similar product segments and operations to Acadian, and have the majority of their operations in North America. Plum Creek, Potlatch, Rayonier and Weyerhaeuser are the four US timber REITs selected based on the REIT-style of Acadian's operations and distributions to shareholders. One downside of such a comparison is that these REITs are significantly larger in size than Acadian. For that reason, smaller cap forest product companies in Canada such as Conifex, Interfor and Western Forest Products are also selected. Pope Resources is near identical in both size and operations to Acadian, although it operates in a dissimilar area of America. The summaries below are provided to highlight the similarities between the companies and Acadian. They are collected from annual reports and S&P Capital IQ.

Canfor Corp. (TSX:CFP)
Vancouver-based Canfor Corporation operates as an integrated forest products company in Canada, the United States, Asia, Europe, and internationally. It operates through Lumber, and Pulp and Paper segments.

Conifex Timber Inc. (TSX:CFF)
Vancouver-based Conifex Timber Inc. primarily manufactures and sells lumber products in the United States, China, Canada, and Japan. The company operates in two segments, Lumber and Bioenergy. The Lumber segment is involved in the timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and provision of value added lumber finishing services.

Deltic Timber Corporation (NYSE:DEL)
Deltic Timber Corporation, an American natural resources company, together with its subsidiaries, engages in the growing and harvesting of timber; and manufacturing and marketing of lumber and medium density fiberboards (MDF). The company's Woodlands segment harvests pine and hardwood pulpwood for sale to third parties for use in the manufacture of paper products; and provides timberland management services, such as harvesting and thinning operations, reforestation, cull timber removal programs, and introducing seedlings.

Interfor Corporation (TSX:IFP)
Vancouver-based Interfor Corporation, together with its subsidiaries, produces wood products. The company offers commodity structural lumber products; and specialty products, such as exterior decking and siding products, machine stress rated products, industrial timber products, and appearance grade items. It is also involved in the purchase and sale of logs that are unsuitable for cutting or in excess of its manufacturing requirements. The company sells its products in Canada, the United States, China/Taiwan, Japan, and internationally.

Plum Creek Timber Co. Inc. (NYSE:PCL)
Plum Creek Timber Company, Inc. is a publicly owned REIT in America. The trust owns and manages timberlands in the United States. Its products include lumber products, plywood, medium density fiberboard, and related by-products, such as wood chips. The trust also focuses on mineral extraction and natural gas production, communication, and transportation.

Pope Resources (NasdaqCM:POPE)
Pope Resources, a Master Limited Partnership (MLP), manages timber resources in the United States. It operates in three segments: Fee Timber, Timberland Management, and Real Estate. The Fee Timber segment is involved in growing, harvesting, and marketing timber from 191,000 timberland acres that it owns or manage as tree farms to domestic manufacturers and export brokers.

Potlatch Corporation (NYSE:PCH)

Potlatch Corporation operates as a REIT that owns and manages timberlands located in Arkansas, Idaho, Minnesota and Wisconsin in the United States. The Resource Management Division manages its timberlands, harvests timber, procures other wood fiber, sells logs and leases land for hunting and other recreational activity. The Real Estate Division develops and sells land parcels, as well as invests in timberlands.

Rayonier Inc. (NYSE:RYN)

Rayonier, Inc. is an American REIT that engages in the sale and development of real estate and timberland management, as well as in the production and sale of cellulose fibers in the United States, New Zealand, and Australia. The company operates in four segments: Timber, Real Estate, Performance Fibers, and Wood Products. Timber segment owns, leases, or manages timberlands and sells standing timber at auction to third parties, as well as sells delivered logs. In addition, Rayonier involves in trading and exporting logs, lumber, and wood panel products.

West Fraser Timber Co. Ltd. (TSX:WFT)

Vancouver-based West Fraser Timber Co. Ltd. operates as an integrated wood products company producing lumber, panels, pulp, newsprint, and wood chips for residential, commercial, and industrial applications. It offers spruce/pine/fir and southern yellow pine lumber products. The company operates in Western Canada and Southern United States.

Western Forest Products Inc. (TSX:WEF)

Vancouver-based Western Forest Products Inc. operates as an integrated softwood forest products company. The company is involved in the harvesting of timber; reforestation; forest management; manufacture and sale of lumber and wood chips; sale of logs; and lumber remanufacturing. Its products include western red cedar, Douglas fir, hem-fir, yellow cedar, and Sitka spruce lumber. The company sells its products in approximately 25 countries worldwide.

Weyerhaeuser Co. (NYSE:WY)

Weyerhaeuser Co. is an American REIT that primarily invests in the United States. The firm operates under four business segments, timberlands, wood products, cellulose fibers and real estate. It owns timberlands primarily in the U.S and has long-term licenses in Canada.

Comparable Companies Analysis (CCA)

Considerations

When taking into consideration the differences in accounting practices between Acadian and its comparable companies some multiples become impractical. Trailing earnings-based multiples are not used due to Acadian's volatile, inaccurate earnings. Asset-value based multiples are also disregarded as the comparable companies record the historical value of their assets on their books while Acadian records their fair value, which changes every year.

Forward P/E, EV/EBITDA & EV/EBIT

The Forward P/E multiple is preferred as it is based on analyst estimates, which do not consider any one-time fair value changes to assets or unrealized loss on debt due to exchange rate fluctuations. S&P Capital IQ was used as the source for the Forward P/E estimates. Earnings-based multiples are affected by a company's capital structure. Acadian's comparable companies comprise of much larger REITS, an American MLP, and both small and large corporations. As a result, the valuation based on the Forward P/E multiple is weighted less than the EV/EBITDA and EV/EBIT multiples, which reveal the value of a business independently of its capital structure.

Outputs

Acadian currently stands at 14.54x EV/EBITDA and 14.88x EV/EBIT, and its CAP IQ Forward P/E estimate is 17.05x, while the industry medians are 15.3x, 15.8x and 17.9x, respectively. These median values present the base case valuation for Acadian, while the bull and bear cases assume 20% upside and 20% downside, respectively. At 15.3x EV/EBITDA Acadian's implied base share price is $19.62, with a $23.54 bull and $15.59 bear scenario. At 15.8x EV/EBITDA its implied base share price is $19.78, with a $23.73 bull and $15.82 bear scenario. At 17.9x Forward P/E its implied base share price is $19.21, with a $23.06 bull and $15.37 bear scenario.

Weighted Price Target

The outputs from the DCF and CCA models are combined to present the weighted price target of $19.09. We applied a 30% weight on the DCF price target, 30% weight on the implied base share price on an EV/EBITDA basis, 30% weight on the implied base share price on an EV/EBIT basis, and a 10% weight on the implied base share price on a Forward P/E basis.

The DCF is not weighted higher for several reasons. Firstly, the discount rate (WACC in this case) significantly impacts the model output, but varies greatly from analyst to analyst. This is as a result of different assumptions for the beta value, expected equity market return and the manner in which the rate is calculated. For instance, if we used 0.55 as Acadian's beta as provided by Bloomberg, we would effectively reduce WACC by 2%. Some analysts also apply a size premium of up to 5% to the discount rate of companies with market caps as small as Acadians. Secondly, the perpetual growth rate method is highly impactful on the model output, but also highly theoretical and impractical in its assumption that anything will hold in perpetuity. In addition, more than one perpetual growth rate can be justified based on the analyst's assumptions about the company's current and future operations and growth outlook. Lastly, operating cash flow projections are heavily based on assumptions, many of which may not hold true in the long run. The further out we project future cash flows, the less tangible data there is to support our projections. It is for this reason that a five year forecast period is used rather than a ten year one. The Forward P/E is weighted lowest of all as it is influenced by the capital structures of the comparable companies and entirely based on consensus estimates.

Recommendation

Acadian has demonstrated its ability to consistently raise its revenues, profit margins and dividends in the past four years, benefitting from a North American housing market which has been recovering from the financial crisis. In 2016, we expect the company to continue experiencing macroeconomic tailwinds as a result of increasing housing starts, lower competition from Western timberlands due to the mountain pine beetle, relatively low exchange rates, low fuel costs, and the temporary elimination of the softwood lumber agreement. However, we believe the market has already priced in most of this upside after Acadian's impressive performance in 2015. Furthermore, Acadian has not demonstrated any inorganic growth through additional timberland acquisitions, despite management claiming that they have been actively looking since inception, and therefore we do not foresee any upcoming acquisitions in the near future. The mature industry in which it operates and the nature of its operations do not allow it to reinvest its healthy cash balance for organic growth purposes. A beta of 1.14 and the cyclical nature of the paper/forest products industry makes the stock highly susceptible to cyclical risk. There is also added risk due to the company's mark-to-market accounting method and unclear tax structure.

We are initiating a Hold rating and a twelve-month target price of $19.09 per share for Acadian. This target price represents a minor 6.11% upside, which is accompanied by a healthy and sustainable 5.56% dividend yield.

Appendices

($ in thousands, fiscal year ending December 31)

Appendix 1: Key Assumptions

ASSUMPTIONS — **Acadian Timber Corp. (TSE: ADN)**

		2013A	2014A	TTM 2015A	2015E	2016E	2017E	2018E	2019E	2020E
* **BALANCE SHEET**										
Other Current Operating Assets	*(% Sales)*	12%	11%	17%	16%	17%	19%	18%	18%	19%
Other Non-Current Assets	*(% Sales)*	8%	8%	7%	7%	7%	6%	7%	7%	7%
Other Current Operating Liabilities	*(% COGS)*	22%	21%	28%	27%	28%	30%	29%	29%	31%
Other Non-Current Liabilities	*(% COGS)*	53%	128%	138%	130%	136%	142%	159%	169%	180%
Change to Share Capital			0%	0%	0%	0%	0%	0%	0%	0%
* **INCOME STATEMENT**										
Cost of Goods Sold	*(% Sales)*	67%	64%	61%	62%	62%	63%	63%	63%	63%
Sale of Goods and Administration	*(% Sales)*	9%	8%	7%	7%	8%	8%	8%	8%	8%
Tax Rate	*(% Pre-Tax)*	36%	32%	35%	33%	33%	33%	33%	33%	33%
* **CASH FLOW STATEMENT**										
Dividends	*(% EBITDA)*	82%	65%	55%	58%	59%	60%	62%	62%	61%
Other Investing Activities	*(%s Sales)*	0%	0%	0%	0%	0%	0%	0%	0%	0%
* **B.A.S.E**										
Capex Growth		-45%	30%	23%	30%	20%	4%	15%	-3%	1%
Depreciation	*(% PPE)*	0.21%	0.14%	0.13%	0.14%	0.13%	0.14%	0.14%	0.14%	0.14%
* **Debt Considerations**										
Cash and Cash Equivilants Interest Rate					2%	2%	2%	2%	2%	2%
Revolving Credit Facilities Interest Rate					0%	0%	0%	0%	0%	0%
Short-term Debt	*(% of LT Debt)*	0%	0%	0%	0%	0%	0%	0%	0%	0%
Short-term Debt Interest Rate					1%	1%	1%	1%	1%	1%
Long-term Debt Interest Rate					4%	3%	3%	3%	3%	3%

Appendix 2: Balance Sheet

BALANCE SHEET Acadian Timber Corp. (TSE: ADN)

		2013A	2014A	TTM 2015A	2015E	2016E	2017E	2018E	2019E	2020E
	Cash & Cash Equivilants	8564	12660	16012	18441	25918	32572	38920	44760	50903
	Other Current Operating Assets	9053	8542	14755	14080	15725	18012	16542	16632	17670
	Net Property, Plant & Equipment	272411	379084	401381	378861	378739	378619	378557	378478	378404
	Other Non-Current Assets	6140	6140	6140	6140	6140	6140	6140	6140	6140
*	**Total Assets**	**296168**	**406426**	**438288**	**417522**	**426522**	**435343**	**440159**	**446010**	**453117**
	Revolving Credit Facilities	0	0	0	0	0	0	0	0	0
	Short-Term Portion of Debt	0	0	0	0	0	0	0	0	0
	Other Current Operating Liabilities	11131	10429	14698	14612	16058	17917	16790	16881	18104
	Long-term Debt	76496	83944	95950	83944	83944	83944	83944	83944	83944
	Deferred Income Tax Liability (non-current)	26348	63441	72309						
	Other Non-Current Liabilities	26348	63441	72309	70382	77777	85050	91905	98650	105410
*	**Total Liabilities**	**113975**	**157814**	**182957**	**168938**	**177779**	**186911**	**192639**	**199476**	**207458**
	Share Capital	140067	140067	140067	140067	140067	140067	140067	140067	140067
	Additional Paid-In Capital	5106	42091	60228	42091	42091	42091	42091	42091	42091
	Retained Earnings	37020	66454	55036	66425	66585	66274	65362	64376	63500
*	**Total Shareholder Equity**	**182193**	**248612**	**255331**	**248583**	**248743**	**248432**	**247520**	**246534**	**245658**

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Appendix 3: Income Statement

INCOME STATEMENT Acadian Timber Corp. (TSE: ADN)

		2013A	2014A	TTM 2015A	2015E	2016E	2017E	2018E	2019E	2020E
	Revenue	74383	77369	85201	88000	92500	94800	91900	92400	93000
	Cost of Goods Sold	50077	49508	52398	54120	57350	59724	57897	58212	58590
*	**Gross Profit**	**24306**	**27861**	**32803**	**33880**	**35150**	**35076**	**34003**	**34188**	**34410**
	Sale of Goods and Administration	6929	5969	6250	6512	6938	7110	6893	6930	6975
*	**EBITDA**	**17377**	**21892**	**26553**	**27368**	**28213**	**27966**	**27111**	**27258**	**27435**
	Depreciation, Depletion and Amortization	566	535	507	512	493	511	530	530	530
*	**EBIT**	**16811**	**21357**	**26046**	**26856**	**27720**	**27455**	**26580**	**26728**	**26905**
	Fair Value Adjustments	2633	45979	44554						
	Unrealized Exchange Loss on LT Debt	-5078	-7214	-15325						
	Gain on Sale of Timberland	103	119	144						
	Loss on Disposal of Land, Roads & Fixed Assets	0	-210	-216						
	Gain/Loss on Revaluation of Roads & Land	-134	6665	6665						
	Other Items	-2476	45339	35822	0	0	0	0	0	0
	Net Interest Expense	3032	3203	3417						
	Interest Expense (Income)	3032	3203	3417	3720	3071	3211	3344	3467	3596
*	**Pre-Tax Earnings**	**11303**	**63493**	**58451**	**23136**	**24649**	**24244**	**23236**	**23261**	**23309**
	Current Income Tax Expense	51	841	826	694	739	727	813	930	932
	Deferred Income Tax Expense	4004	19414	19389	6941	7395	7273	6855	6746	6760
	Tax	4055	20255	20215	7635	8134	8001	7668	7676	7692
*	**Net Income**	**7248**	**43238**	**38236**	**15501**	**16515**	**16243**	**15568**	**15585**	**15617**

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Appendix 4: Cash Flow Statement

CASH FLOW STATEMENT — Acadian Timber Corp. (TSE: ADN)

	2013A	2014A	TTM 2015A	2015E	2016E	2017E	2018E	2019E	2020E
Net Income	7248	43238	38236	15501	16515	16243	15568	15585	15617
Depreciation, Depletion and Amortization	566	535	507	512	493	511	530	530	530
Accounts receivables and other assets	-1054	322	-						
Inventory	271	189	-						
Changes in Current Operating Assets	-783	511	-	5538	1645	2287	-1470	90	1038
Accounts payable and accrued liabilities	2995	-702	-						
Changes in Current Operating Liabilities	2995	-702	-	4183	1446	1859	-1127	91	1223
Change in Net Working Capital	2212	-191	-5177	-1355	-199	-428	343	1	185
Fair Value Adjustments	-2633	-45979	-44554						
Loss/Gain on Revaluation of Roads & Land	134	-6665	-6665						
Net Interest Paid	-3052	-3223	-3545						
Gain on Sale of Timberlands	-103	-119	-144						
Disposal of Land, Roads and Fixed Assets	0	210	216						
Net Other	219	457	1232						
Deferred Income Tax Expense	4004	19414	19389	6941	7395	7273	6855	6746	6760
Unrealized Exchange Loss on Long Term Debt	5078	7214	15325						
Net Interest Expense	3032	3203	3417						
Other	6679	-25488	-15329	6941	7395	7273	6855	6746	6760
* **Cash from Operations**	**16705**	**18094**	**18237**	**21599**	**24203**	**23600**	**23296**	**22862**	**23092**
Additions to Timber, Land, Roads & Other Fixe	-576	-318	-404						
Capital Expenditures	-576	-318	-404	-413	-496	-516	-593	-576	-581
Proceeds from Sale of Timberlands & other as	103	124	159						
Dispositions	103	124	159	125	125	125	125	125	125
Other Investing Activities	0	0	0	0	0	0	0	0	0
* **Cash from Investing**	**-473**	**-194**	**-245**	**-288**	**-371**	**-391**	**-468**	**-451**	**-456**
Revolving Credit Facilities	0	0	0	0	0	0	0	0	0
Dividends	-13804	-13804	-14431	-15530	-16355	-16555	-16480	-16571	-16493
Deferred Financing Costs	0	0	-448	0	0	0	0	0	0
Other Financing activities	0	0	-448						
Change in Debt	0	0	0	0	0	0	0	0	0
Change in Equity	0	0	0	0	0	0	0	0	0
* **Cash from Financing (Pre-Revolver)**	**-13804**	**-13804**	**-14879**	**-15530**	**-16355**	**-16555**	**-16480**	**-16571**	**-16493**
Beginning Cash Balance	6136	8564	12660	12660	18441	25918	32572	38920	44760
Changes in Cash (Pre-Revolver)	2428	4096	3113	5781	7477	6654	6348	5840	6143
Ending Cash Balance (Pre-Revolver)				18441	25918	32572	38920	44760	50903
Revolver Draw				0	0	0	0	0	0
Revolver Paydown				0	0	0	0	0	0
* Ending Cash Balance	8564	12660	15773	18441	25918	32572	38920	44760	50903

Appendix 5: Beta Calculation

Beta Calculation	
Industry Unlevered Beta	0.87
Current Debt Value	95950
Current Equity Value	294500
Effective Tax Rate	3%
Acadian Levered Beta	1.14

Appendix 6: Weighted Average Cost of Capital (WACC)

Capital Structure	
Current Debt Value	95950
Current Equity Value	294500
Debt-to-Total Capitalization	25%
Equity-to-Total Capitalization	75%
Cost of Debt	
Current Weighted Average Debt Yield-to-Maturity	3.01%
Effective Tax Rate	3%
After-Tax Cost of Debt	***3%***
Cost of Equity	
Risk Free Rate	1.93%
Current Market Risk Premium	5.16%
Current Expected Market Return	7.09%
Beta	1.14
CAPM	***8%***
Current Weighted Average Cost of Capital (WACC)	**6.63%**

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Appendix 7: Discounted Cash Flows (DCF)

DISCOUNTED CASH FLOW ANALYSIS — Acadian Timber Corp. (TSE: ADN)

Current Weighted Average Cost of Capital (WACC)	**6.63%**
Long-term Perpituity Growth Rate	2.00%

EBIT	27720	27455	26580	26728	26905
Effective Tax Rate	*3%*	*3%*	*4%*	*4%*	*4%*
Depreciation, Depletion and Amortization	493	511	530	530	530
Capital Expenditure	-496	-516	-593	-576	-581
Change in Net Working Capital	-199	-428	343	1	185
Unlevered Free Cash Flow	**26685**	**26199**	**25930**	**25615**	**25962**
Discounted Unlevered Free Cash Flow	23470.42	21609.70	20058.24	18582.60	17663.81

Present Value of Projected Cash Flows	$	101,385
Present Value of Perpituity Cash Flows	$	276,812
Total Enterprise Value	**$**	**378,197**
Total Debt	$	95,950
Cash	$	16,012
Total Equity Value	**$**	**298,259**
Shares Outstanding (thousands)		16,731
Price/Share	**$**	**17.83**

Discount Rate (WACC) / **Long-term Growth Rate**

Long-term Growth Rate	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%
0.00%	$23.02	$19.80	$17.19	$15.05	$13.25	$11.73	$10.43	$9.31
0.50%	$25.68	$21.82	$18.76	$16.28	$14.25	$12.54	$11.10	$9.87
1.00%	$29.09	$24.34	$20.67	$17.77	$15.42	$13.49	$11.87	$10.50
1.50%	$33.65	$27.58	$23.06	$19.59	$16.83	$14.61	$12.77	$11.23
2.00%	$40.02	$31.90	$26.14	$21.86	$18.56	$15.95	$13.83	$12.08
2.50%	$49.58	$37.94	$30.24	$24.78	$20.72	$17.58	$15.10	$13.09
3.00%	$65.52	$47.02	$35.98	$28.67	$23.49	$19.63	$16.66	$14.30
3.50%	$97.39	$62.14	$44.59	$34.12	$27.18	$22.26	$18.60	$15.78

Appendix 8: Comparable Companies Analysis (CCA)

TRADING COMPARABLES ANALYSIS Acadian Timber Corp. (TSE: ADN)

As of: Jan-27-2016

$ In Millions

Company	Price	Mkt-Cap	Cash	T. Debt	EV	EBITDA	EBIT	EV/EBITDA	EV/EBIT	Fwd. P/E
Canfor Corp. (TSX:CFP)	15.07	2001.40	158.00	296.60	2140.00	393.20	192.20	5.44	11.13	11.20
Conifex Timber Inc. (TSX:CFF)	2.00	42.20	10.00	125.80	158.00	1.60	-12.60	98.75	-12.54	8.44
Deltic Timber Corporation (NYSE:DEL)	73.09	908.50	4.00	285.50	1190.00	49.60	21.60	23.99	55.09	-
Interfor Corporation (TSX:IFP)	10.44	731.10	18.00	220.40	933.50	87.00	-16.20	10.73	-57.62	19.02
Plum Creek Timber Co. Inc. (NYSE:PCL)	55.07	9586.80	129.00	4630.60	14088.40	731.20	540.00	19.27	26.09	35.12
Pope Resources (NasdaqCM:POPE)	88.45	380.20	34.00	126.50	472.70	18.90	3.90	25.01	121.21	-
Potlatch Corporation (NYSE:PCH)	38.64	1571.90	11.00	891.40	2452.30	136.40	82.80	17.98	29.62	29.76
Rayonier Inc. (NYSE:RYN)	27.32	3381.00	227.00	1067.00	4221.00	275.10	112.80	15.34	37.42	47.77
West Fraser Timber Co. Ltd. (TSX:WFT)	45.31	3736.10	14.00	457.00	4179.10	497.00	313.00	8.41	13.35	12.48
Western Forest Products Inc. (TSX:WEF)	1.96	774.70	2.00	79.70	852.40	96.00	66.60	8.88	12.80	8.17
Weyerhaeuser Co. (NYSE:WY)	34.48	17599.90	2222.00	7596.20	22974.10	2134.60	1454.00	10.76	15.80	17.86
Acadian Timber Corp. (TSE: ADN)	**18.34**	**306.90**	**16.01**	**95.95**	**386.84**	**26.60**	**26.00**	**14.54x**	**14.88x**	**17.05**
Average								**22.2x**	**22.9x**	**21.1x**
Median								**15.3x**	**15.8x**	**17.9x**

	EV/EBITDA	EV/EBIT	F. P/E
Implied Market Capitalization - Average	**$511**	**$517**	**$380**
Implied Market Capitalization - Median	**$328**	**$331**	**$321**

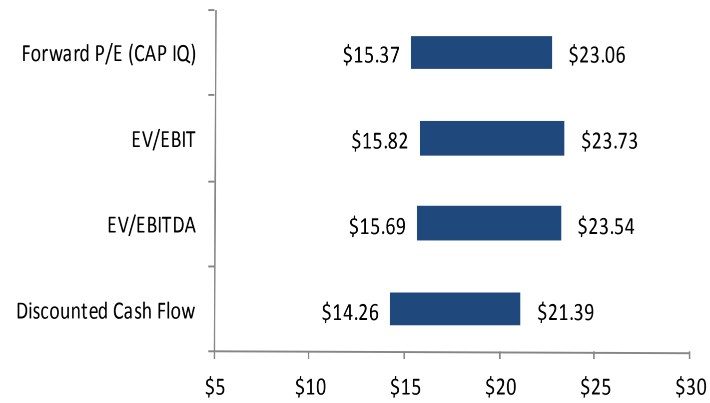
Appendix 9: Valuation Summary & Weighted Price Target

VALUATION SUMMARY

Acadian Timber Corp. (TSE: ADN)

Implied Market Cap	**Bear**	**Base**	**Bull**
Discounted Cash Flow	$ 238,607	$ 298,259	$ 357,910
EV/EBITDA	$ 262,558	$ 328,197	$ 393,837
EV/EBIT	$ 264,701	$ 330,876	$ 397,051
Forward P/E (CAP IQ)	$ 257,184	$ 321,480	$ 385,776

Implied Price Per Share	**Bear**	**Base**	**Bull**
Discounted Cash Flow	$ 14.26	$ 17.83	$ 21.39
EV/EBITDA	$ 15.69	$ 19.62	$ 23.54
EV/EBIT	$ 15.82	$ 19.78	$ 23.73
Forward P/E (CAP IQ)	$ 15.37	$ 19.21	$ 23.06
Weighted Price Target	$ 15.27	**$ 19.09**	$ 22.90



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