



ACADIAN TIMBER



## Acadian Timber Income Fund

### Management Discussion, Conversion to a Corporation, Transcript

**Date:** Friday, November 13, 2009

**Time:** 4:30 PM ET

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



OPERATOR: Hello. This is the Chorus Call Conference Operator. Welcome to the Acadian Timber Income Fund Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. If you are watching the webcast, you are encouraged to enlarge the slides, by clicking on the link with the icon that resembles a magnifying glass in the lower left-hand quadrant of the frame. Alternatively, you may wish to download a PDF copy of the slide presentation, using the link in the lower left-hand quadrant of the frame. After the presentation, there will be an opportunity to ask questions.

At this time, I'd like to turn the conference over to Mr. Reid Carter, President and CEO. Please go ahead, Mr. Carter.

REID CARTER: Thank you, Operator, and good afternoon everyone. Welcome to Acadian's conference call and webcast announcing our proposed conversion to a corporation. Before we get started, I'd like to call your attention to the following. This conference call is being webcast simultaneously through our website at [www.acadiantimber.com](http://www.acadiantimber.com), where you can also find a copy of the press release and other financial and investor materials. Please note that in responding to questions, and talking about our financial and operating performance and strategic initiatives, we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information of known risk factors, I encourage you to review Acadian's prospectus, dated January 23rd, 2006 and subsequent regulatory filings, which can be found at [www.sedar.com](http://www.sedar.com) and on our own website.

Brookfield, as manager of Acadian Timber Income Fund, has been actively exploring its strategy involving the conversion of Acadian to a taxable corporation, while mitigating cash taxes going forward. As we have discussed, under the SIFT tax rules, income trusts are required to convert to corporations by January 1, 2011, or become taxable, like a corporation. In that regard, we have concluded that conversion to a taxable corporation in association with strategies



aimed at mitigating cash taxes offered the greatest financial benefit at the lowest risk. We are now pleased to announce that Acadian has signed definitive documents in relation to a proposed transaction, which allows for the conversion of the fund from an income trust to a corporation in a very tax effective manner, through a business combination with a privately held company called CellFor. We would note that CellFor is the world's leading independent supplier of high-technology seedlings to the global forest industry and is based in Vancouver, British Columbia.

Full details of the proposed conversion will be provided in an information circular that's expected to be mailed and filed by the fund in the coming weeks, with a current target for mailing being Monday, November 23rd. Unitholders will be invited to consider and approve the proposed conversion at a special meeting of fund unitholders. At the special meeting, unitholders will be asked to consider a proposed plan of arrangement under the provisions of the Canadian Business Corporations Act, involving, among others, the fund and CellFor.

The arrangement has been unanimously approved by Acadian's Board of Trustees, and by CellFor's Board of Directors. We would note that new Acadian's dividend policy is expected to be similar to the current distribution policy of the fund. Concurrent with the signing of the definitive documents, Acadian has agreed a loan up to \$4 million to CellFor, which shall become the cash consideration for the purchase price.

As you would expect, given our decision to announce this proposed transaction, due diligence is now complete and all major aspects of the proposed transaction are confirmed, after a very comprehensive process. Under the proposed plan of arrangement, Acadian unitholders will exchange Acadian units for shares of CellFor, such that CellFor becomes the new public company. Through this process, effectively a reverse takeover, Acadian will acquire selected business



assets compatible with the business of Acadian at the tax attributes of CellFor, which are equivalent to approximately \$95 million in the aggregate.

In order to effect this transaction, Acadian has agreed to a total consideration of \$5 million, consisting of a \$4 million loan and \$1 million in Acadian shares. Preliminary views of purchase price allocation could attribute up to \$3 million of this purchase price value to the acquisition of certain business assets acquired, at \$2 million for CellFor's \$95 million of tax attributes. However, this has not been finalized.

Acadian's unitholders will receive one common share of CellFor, which I'll call new Acadian common shares, for each fund unit held on the effective date, and CellFor will change its name to Acadian Timber Corp., the new Acadian. Upon completion of the arrangement, new Acadian will indirectly own and operate the existing business of Acadian and its subsidiaries, and the existing trustees of the fund and management of the business will become the Directors of new Acadian and the management of the business. New Acadian will also retain and license certain business aspects of CellFor, related to the development of superior spruce stock.

As you might have guessed, in looking at our SG&A over the past quarter, we've been actively working on this proposed corporate conversion for quite awhile. Now after several Board meetings called to consider the financial aspects and other considerations related to the proposed arrangement, the Board has determined that the arrangement is fair and reasonable to fund unitholders and that it is in the best interests of the fund and fund unitholders. Now as a result, the Board has unanimously approved entry into the arrangement agreement and unanimously recommended that the fund unitholders vote in favor of the fund arrangement resolution. We're very excited that the proposed conversion strategy will bring significant benefits to fund unitholders. And as outlined in the press release, these key benefits include, first, implementation of an effective



and efficient method of converting the fund from mutual fund trust to a corporation, consistent with existing legislation, retention and license by new Acadian of CellFor's black and red spruce germplasm and base production technology, offering opportunities to increase the long-term productivity of new Acadian's timberlands.

Black spruce is our primary high-value softwood species and this will give Acadian access to exogenic material to develop in our nursery. And improved tax position, where Canadian taxable fund unit holders should benefit from lower income taxes paid on dividends compared to taxes paid on current distributions of income of the fund. Removal of the normal growth and undue expansion restrictions and the normal growth guidelines removes limits of the fund's ability to consider strategic acquisitions and may result in greater access to capital.

Our due diligence supports the conclusion that fund unitholders are expected to be able to exchange fund units for new Acadian common shares on a tax deferred basis for Canadian income tax purposes.

Finally, new Acadian will have estimated aggregated tax equivalent attributes equivalent to approximately \$95 million following the arrangement. These tax attributes are forecast to mitigate the payment of cash taxes for approximately seven years, given our current forecasts of Acadian's future taxable income. Given that the proposed corporate conversion has resulted from a change in Canadian tax regulations, we believe the proposed strategy offers a very good result for Acadian unitholders.

That concludes our presentation and we welcome your questions. Operator?

OPERATOR: The first question is from Stu Kedwell with RBC. Please go ahead, sir.

STU KEDWELL: Hi, Reid. How are you doing?



REID CARTER: I'm doing well thanks, Stu. How about yourself?

STU KEDWELL: Great, great. The tax attribute, is there a -- what's the time associated with that asset in terms of the recovery in timber? Is that anything we need to worry about? And then just a bit more meat on the bones on what this allows the fund to do? Strategically, you talk about perhaps accessing capital, things like that. How should we think about that going forward?

REID CARTER: Well, first of all, the tax attributes are mostly scientific – they're **SRED** credits that don't age. Most of these tax attributes are open ended, so we don't expect any difficulty in making use of them.

STU KEDWELL: OK

REID CARTER: We do anticipate we'd likely utilize them in a period of plus or minus seven years. So that's a very good benefit given uncertainty over the near, medium-term market place.

Strategically, our opportunities to grow Acadian, or have better access to capital, I think really are depending kind of on the value of Acadian's currency which is its shares. Clearly, our shares have been struggling with our decision to reduce our distributions in the near term here. We'll have to see how the value of our shares play out with this announcement. But we would expect with a recovery in our earnings and our distributions that our currency would improve and that would create some opportunities for growth.

It has been our experience and observation in looking at publicly traded timber companies in Canada and the US, they tend to trade more with general market conditions than they do with sort of the near-term outlook for timber or their own cash flows. So there are periods of time where publicly traded companies tend



to have a higher cost of capital than private equity and we believe there will be periods of time where that's the opposite. And particularly if that does reverse where public companies come into favor, well, that's when we'd have our best opportunities.

STU KEDWELL: Okay, great. Thank you.

REID CARTER: You're welcome.

OPERATOR: Next question is from Lee Matheson of Broadview Capital Management. Please go ahead, sir.

LEE MATHESON: Thanks. Hi, guys. I guess my first question is why now? I mean, why not wait until closer to 2011 when you need to do this transaction because, as you mentioned – with the stock price where it is, it's not as if -- it looks like you're going to be out there aggressively expanding Acadian?

REID CARTER: These transactions take time and they involve strategy. We really believed that CellFor was a very unique opportunity for us where we had an opportunity to affect a business combination with these retained assets. There was a strategic imperative as well as simply benefiting from their tax pools. CellFor was in a position to want to affect a similar kind of opportunity. So the time was right. It was a unique opportunity for us and, frankly, I think over the last, well, really since October 31, 2006 on every analyst call we've had questions about just exactly what we plan to do in advance of the tax -- the change to SIFT rules. So I think removing that uncertainty was important. So we really needed to do it in the next 12 months and now seemed to be a good opportunity.

LEE MATHESON: Okay, and then how did you come about CellFor? Are they a vendor to you, are they -- I take it they're not owned by anyone in the Brookfield umbrella.



- REID CARTER: No. They're not in any way a related party. They're a completely independent private company. And one of their advisors came to us to see if we had an interest in pursuing a transaction like this with them. So it was really, they came to us rather than us finding them.
- LEE MATHESON: Okay, and then to be clear, the \$95 million in tax attributes, you said that's not \$95 million of accumulated losses, that's actually the deferred tax, the value of the deferred tax asset?
- REID CARTER: That's the value of affectively their tax losses with much of those coming from, as I mentioned, these scientific research and development tax credits.
- LEE MATHESON: Okay, okay. Okay, thanks.
- REID CARTER: Okay.
- OPERATOR: Next question is from Graham Meagher with TD Newcrest. Please go ahead, sir.
- GRAHAM MEAGHER: Hi, Reid, just a question on tax rates. What would a normalized tax rate be for Acadian?
- REID CARTER: We believe that to be approximately 30%.
- GRAHAM MEAGHER: 30%? And then just looking as well at the pay ratio for determining dividends going forward? You sort of alluded before that they could fluctuate with earnings and that. What would your pay ratio target be?
- REID CARTER: Our target pay ratio is 95%. That's unchanged from our IPO.
- GRAHAM MEAGHER: Okay. Thank you. That's all I have.



REID CARTER: Great, thanks.

OPERATOR: We have a follow-up question from Stu Kedwell of RBC. Please go ahead, sir.

STU KEDWELL: Hi, just with this changed, obviously provides a pretty good runway, for when things recover, to still distribute a fair amount of the pre-tax cash. I know that there's good support from longer-term shareholders and things like that. But, was there any point along the way where the Board thought maybe this is just the wrong -- this asset trading publicly, like they don't belong together? Maybe we should just look at a whole different approach. What's the thinking on that front?

REID CARTER: We always had, as I've mentioned on previous conference calls, that we always have had a number of options. In terms of our facing the likelihood, well, the inevitable possibility of becoming a taxable entity we could have sold the company. We could have become a tax-paid entity which is what we've chosen. Or we could have done some combination, enact various strategies for mitigating tax programs, cash taxes as we've done.

I think we believed that, as you're aware, Brookfield's very involved in both private equity and Acadian as a public entity. Timberland's ownership: we're very involved in timberland transactions throughout the Americas. And it's been our observation that there has been less capital available to seeking timberland acquisitions. There's like been some gap between buyer and seller expectations with a number of potential timberland sales withdrawn from the sort of broader option market over the last 18 months. We didn't think there was a high probability that the sale of Acadian option would surface the kind of value that we really believe is represented by Acadian. So this was viewed as the better alternative. It doesn't preclude that as a possibility in the future. But at this time we think that the path we've gone on, the Board is confident has been the right one.



STU KEDWELL: And even if the per-acre-amount was higher than the kind of EV to per acre that you're trading at, I guess, is there anything out there that -- even -- I guess in existing context -- that we should be looking at or anything like that?

REID CARTER: I mean, in terms of our current EV I don't want to speculate about what we could sell Acadian for today. My impression is that most timberland owners have a very long timeframe. And when you value timberlands who are almost exclusively valued through discounted cash flows of multiple rotations, typically 50 to 100-year timeframes and short terms -- discount rates continue to be really quite low in that valuation process. And a short term, meaning maybe another couple of years, of weak cash flows really have a very limited affect, particularly if you're growing inventory and not harvesting at your long-run sustained yield and you capture that additional harvest opportunity perhaps in years three, four and five or something like that, you look at the impact of the present value of the current downturn, it's very small.

So it's my belief that timberland, despite the decline in our enterprise value, which I really think that Acadian's long-term value is there and I think that our value -- I've always believed that our value is equal to or well in excess of our IPO value. And I think our Board agrees and we're not looking for a short-term exit to simply make a modest improvement on our current enterprise value. We are viewing this as a long-term investment.

STU KEDWELL: Yes, I'm just trying to think through. I see all the differences between your EV per acre and the private market value; I don't dispute any of that. I'm just trying to think of ways that as existing shareholders we can somehow kind of capitalize on the situation. But what you're saying is that the values aren't following privately, so there's no way to do anything really about it. Is that fair?

REID CARTER: As a generalization, what we see in the marketplace, small transactions, particularly those below say \$50 million total enterprise value, have continued to



be relatively active, not as active as they were two years ago in the North American market. But they've continued to occur whereas transactions \$50 million and \$100 million and up have been dramatically reduced over the last two years. And it's a combination of less committed capital in the private equity market for that and also people looking for a drop in timberland values and opportunities to buy well. So it's a pretty slow marketplace today.

STU KEDWELL: Okay, great. I appreciate your time.

REID CARTER: You're welcome. Thank you.

OPERATOR: There are no more questions at this time. I'll hand the call back over to Mr. Carter.

REID CARTER: Well, once again, I'd like to thank all of you for joining us this afternoon. As always, we remain available for questions, happy to take your calls or emails. And thank you very much for your interest in Acadian. Have a nice weekend. Good bye.

OPERATOR: Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.