Second Quarter Conference Call

Conference Call Script – Friday, August 9, 2013

Peter Winkley

Good morning everyone and welcome to the Algoma Central Corporation Fiscal 2013 Second Quarter Investor Conference Call. My name is Peter Winkley and I am Vice-President, Finance and Chief Financial Officer of Algoma.

Hopefully you have by now seen our Q2 news release, which was sent out on Thursday afternoon.

We are broadcasting this event live courtesy of CNW and you will find a PowerPoint presentation on our profile page at the CNW website that will highlight the details of the conference call. Copies of these slides will be available following this call on our website.

Joining me this morning on the call is Greg Wight, President and CEO of Algoma.

This morning I will take you through the financial highlights for the quarter, following which I will turn the call over to Greg for his perspective on events in the quarter and the outlook for the business. We will then open it up for questions.

Before we begin, I should remind you that our comments today may contain forward looking statements that are subject to risks and uncertainties that could cause actual results to vary materially. Some of these risks are disclosed in the Management's Discussion and Analysis portion of the Company’s Annual Report and in the 2012 Annual Information Form filed with the relevant securities regulators. Also, unless otherwise noted, all amounts are in Canadian dollars.

Financial & Highlights

I'm going to take you through our financials for the quarter and year-to-date and touch on our operational highlights.

We are pleased with the result for the second quarter of 2013, although the results were negatively impacted by a slower start to the domestic season and to lost days resulting from vessel incidents. We are reporting revenues for the quarter of $144.9 million compared to reported revenues of $157.2 million last year.

Segment earnings after tax for the fiscal 2013 second quarter were $20.9 million compared to $25.8 million for 2012. The decrease was due to domestic dry-bulk. As a reminder, segment earnings net of tax reflects operating earnings attributable to our business segments on an after-tax basis and therefore is before considering foreign exchange gains or losses and net interest expense, which we do not allocate to our business segments.

Foreign currency gains offset some of the drop in segment earnings. A weaker Canadian dollar resulted in gains on our excess USD cash and on the hedges that we entered into to manage the exchange exposure on our Equinox Class ship construction contracts.

I will turn now to the results from our business units.

Domestic dry-bulk revenues for the quarter in 2013 were $100.1 million compared to $118.0 million for 2012. The decrease reflects lost days due to ships being out of service for repairs and somewhat lower cargo volumes in the system in the early part of the quarter.

The domestic dry-bulk segment after-tax operating earnings were $13.1 million for the quarter compared to $20.2 million reported for 2012. The drop is attributable to the lower revenues, although contractual wage increases and an increase in repair costs also were a factor.

Revenues from Product Tankers for the quarter in 2013 were $27.9 million, up substantially from $24.2 million for 2012. This increase reflects strong customer demand for our domestic tankers, continuing the trend from the first quarter. Year-to-date, revenues were $47.3 million compared to $41.3 million last year.

As a result of these strong revenues, segment earnings after tax were $3.5 million for the quarter and $4.9 million year-to-date, up from the $3.0 million and $3.4 million reported for the same periods last year. These results also reflect the reduction in arbitration related legal fees this year. Greg will address the status of the arbitration later in his comments.

As you know, we conduct our Ocean Dry-Bulk business as a member of the world’s largest commercial self-unloader pool. We own two ships that participate directly in that Pool and we have a 50% interest in a company that has four additional ships participating. Beginning for 2013, IFRS accounting rules change the way that our financial statements reflect our participation in the Pool and we are no longer permitted to include the revenues earned by these ships in the revenue figure reported on our statement of earnings. Nevertheless, as the Pool revenues drive the operating results of both our wholly owned ships and the ones we own indirectly, and because we are active in the management of the Pool, our MD&A and the slides that accompany this presentation disclose both our reported revenues from our two directly owned ships and the overall share of Pool revenues that drive the segment after-tax earnings.

Turning to the results of Ocean Shipping, our share of Pool revenues for the second quarter was $16 million and for the year-to-date was $31.5 million compared to $16.1 million and $35.3 million for the same periods in 2012. The decrease for the year-to-date primarily reflects the sale late in 2012 of one of our 50% owned vessels. While this also impacted our share of Pool revenues for the second quarter, the impact was largely offset by a reduced Pool share last year attributable to a dry-docking of a vessel.

Our reported revenues for the quarter were $9.9 million compared to $7.9 million in 2012, reflecting that dry-docking last year.

After-tax earnings for the segment were $3.7 million for the 2013 quarter and $2.0 million last year. The corresponding year-to-date figures were $7.2 million compared to $6.5 million. The IFRS accounting change has no impact on the after-tax segment earnings we report.

Revenue from our real estate segment, Algoma Central Properties, was $7.0 compared to $7.1 million in 2012. Segment after-tax earnings were $0.6 million compared to $0.7 million last year. Hotel occupancy and some available space in Waterloo account for the drop.

Cash flow from operations for the year-to-date was $20.2 million compared to $21.4 million in 2012. While lower earnings were negative to cash flow from operations, this was largely offset by reduced working capital required compared to year-end.

At the end of the quarter we had cash of $127 million and net working capital of $199 million. This is more than adequate to cover our *Equinox Class* construction costs and other commitments.

Our shareholders' equity at quarter-end was $505 million, or $12.97 per share. We paid a dividend of 7¢ per share at the beginning of March and June and our Board of Directors has declared a 7¢ per share dividend payable on September 3rd to shareholders of record on August 20th.

That covers the operating and financial highlights of the second quarter. I will now turn it over to Greg Wight, our CEO.

Greg Wight – CEO Perspective and Outlook

Thank you, Peter.

During my remarks at our Annual Meeting, I mentioned that the London Arbitration Tribunal had found strongly in favour of Algoma in all matters as we had rescinded the three shipbuilding contracts according to their terms.

Following the notification, we immediately started the process to make a formal demand for the reimbursement of the installment payments totaling $35.4 million US.

On May 24, 2014, the Shipyard filed an application to seek leave to appeal the decision with the London Commercial

Court and, accordingly, this collection process has been stayed until the judge rules on this matter.
We remain confident that we will prevail with our deposits being recovered according to the Tribunal's original decision.

I also indicated during the recent Annual Meeting that the first of the eight new Equinox Class vessels, the *Algoma Equinox*, was to be delivered in China in early July. Unfortunately, this date has slipped and we are now expecting delivery in China within the next 30 days. Currently, the vessel is undergoing commissioning of the major equipment at the lay-by berth at the Shipyard with sea trials expected to commence shortly.

We continue to be confident we will have the first two Equinox vessels in service or returning to Canada by the end of the year. The remaining vessels are expected to be delivered throughout 2014.

The Equinox Class vessels, when delivered, will fully meet our stated objective of significantly improving the efficiency of our fleet while at the same time reducing our environmental impact.

We are very pleased to note that our net liability from employee future benefit obligations has decreased significantly in the first six months of 2013. This decrease of $16.1 million was due mainly to strong investment results on pension fund assets and an increase in the discount rate used to value the liabilities of the post-employment plans.

This decrease in the net liability stems the increases we have seen in the last number of years due to ever decreasing mandated discount rates. We are hopeful that the combination of continuing strong investment returns and more reasonable discount rates in the future will continue to reduce the net liability of these plans.

We are expecting the release of our inaugural Sustainability Report by the end of next week. This report which replaces our Environmental Report will highlight our significant sustainability accomplishments as well as our future challenges and improvement initiatives in the areas of Operations Excellence, Environmental Responsibility, Social Responsibility and Governance.

In keeping with our objective of a reduced environmental footprint, our Sustainability Report will not be printed but instead will be posted and available on our website (algonet.com).

I will now turn it over to the Conference Operator for the Question and Answer session.

Q&A

Greg Wight

Thank you for joining us today. Should you have any further questions, please give Peter or me a call.