Third Quarter Conference Call

Conference Call Script – Monday, November 11 2013

Peter Winkley

Good morning everyone and welcome to the Algoma Central Corporation Fiscal 2013 Third 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 Q3 news release and our SEDAR filings, all of which were released on Friday 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.

The third quarter was a challenging one for us, particularly in the grain, iron and steel, and construction segments of our customer basis. Strong export ore markets in 2012 have not continued at the same pace in the current year, affecting both Seaway volumes and our overall revenues. As expected, the end of the Canadian Wheat Board single trading desk has had an impact on grain trading patterns and this is bringing more seasonality to grain shipments than we observed under the former structure. Overall, operating days were 11% lower than for the same period last year. Consolidated revenues for the quarter were $146.9 million compared to $165.0 million in 2012.

Segment earnings after tax for the fiscal 2013 third quarter were $30.2 million compared to $34.5 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 is before considering foreign exchange gains or losses and net interest expense, which we do not allocate to our business segments.

Our general and administration expenses are down from the prior year, including the impact of the arbitration costs incurred last year and not repeated. These G&A costs reductions are reflected in the business segment results.

In addition, an improved foreign currency position and lower net interest expense offset some of the drop in segment earnings. Net earnings for the quarter and earnings per share were $28.3 million and 73 cents compared to $29.6 million and 76 cents last year.

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

Domestic dry-bulk revenues for the third quarter in 2013 were $105.2 million compared to $122.8 million for 2012. The decrease reflects lower cargo volumes in the system for the three customer segments mentioned earlier. We utilized some of the non-operating delays caused by these lower volumes to complete a vessel dry-docking that had been deferred from early this year.

The domestic dry-bulk segment after-tax operating earnings were $19.1 million for the quarter compared to $25.0 million reported for 2012. The drop is attributable to the lower revenues.

Revenues from Product Tankers for the quarter in 2013 were $24.1 million compared to $23.6 million for 2012. The strong customer demand seen earlier this year has continued. Year-to-date tanker revenues were $71.4 million compared to $64.8 million last year.

As a result of these strong revenues, segment earnings after tax were $5.7 million for the quarter and $10.6 million year-to-date, up from the $3.8 million and $7.2 million reported for the same periods last year. These results also reflect the reduction in arbitration related legal fees this year.

Turning to the results of Ocean Shipping, our share of Pool revenues for the third quarter was $16.7 million and for the year-to-date was $48.3 million compared to $19.4 million and $54.7 million for the same periods in 2012. The decrease for the two periods primarily reflects the sale late in 2012 of one of our 50% owned vessels. While this impacted our share of Pool revenues for the quarter, it did not impact the revenues we report in our consolidated revenues that come from our 100% owned ships.

Our reported revenues for the quarter were $10.4 million, down only marginally compared to $11.2 million in 2012.

After-tax earnings for the segment were $4.7 million for the 2013 quarter and $5.0 million last year. Although reporting income before taxes, the segment is reporting a small income tax recovery resulting from a foreign exchange loss on a financing structure associated within this business segment.

Revenue from our real estate segment, Algoma Central Properties, was $7.7 compared to $7.5 million in 2012 and segment after-tax earnings were $0.7 million for both years. Although we continue to see disappointing results from our Sault Ste. Marie hotel, improved results from Station Mall and some improved leases compared to the same period last year helped results overall.

That summarizes the highlights on the income statement. I will now turn to major items affecting cash flow.

Cash flow from operations for the year-to-date was $43.8 million compared to $54.0 million in 2012 as a result of the lower earnings and higher cash taxes. Partially offsetting this is an increase in cash realized from lower working capital.

For the year to date we have invested $21 million in capital assets, primarily related to vessel construction.

At the end of the quarter we had cash of $139 million and net working capital of $218 million. This is more than adequate to cover our Equinox Class construction costs and other commitments.

Our shareholders' equity at quarter-end was $531 million, or $13.65 per share. On Friday, our Board of Directors declared a 7¢ per share dividend payable on December 2nd to shareholders of record on November 18th. This payment will bring the total dividends for 2013 to 28¢, an increase of 27% compared to 2012.

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

Greg Wight – CEO Perspective and Outlook

Thank you, Peter.

The obvious highlight of this past quarter was the delivery of our first Equinox Class vessel from Nantong Mingde Shipyard on September 25th. After completing the final outfitting for its voyage home to Canada, the *Algoma Equinox* departed the Shipyard on October 2nd.

I refer you to the PowerPoint presentation which is now showing the delivery voyage map for the *Algoma Equinox*. The vessel arrived in Balboa, Panama today and is now in the queue for its Panama Canal transit. All going well, we expect the *Algoma Equinox* to be in service in Canada in about two weeks.

The *Algoma Equinox* is the first in a series of eight Equinox Class vessel, four gearless and four self-unloading bulk carriers, being constructed at the Nantong Mingde Shipyard in Nantong, China. These vessels represent the next generation of bulk carriers for trading on the Great lakes – St. Lawrence Waterway.

Our $300 million investment in six of these eight Equinox Class vessels demonstrates our commitment to operating in a sustainable manner. These vessels have been designed to maximize carrying capacity at Seaway drafts while optimizing fuel efficiency and speed.

Our ongoing commitment to sustainability was further demonstrated by the release of our inaugural Sustainability Report in the quarter. This report, which replaces our Environmental Report, highlights 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.

We are very proud of this report and I refer you to our website (algonet.com) to view and obtain a copy of this report.

We continue to await a decision from the London Commercial Court as to whether the JZU Shipyard will be granted leave to appeal the London Arbitration tribunal's decision. In this decision, which as released last April, the

Tribunal found that Algoma had rescinded the three shipbuilding contracts in question according to their terms.

Our collection activities for the reimbursement of the installment payments totaling $35.4 million US have been stayed pending the London Commercial Court judge ruling on this matter.

We remain confident that we will prevail, with our deposits being recovered according to the Tribunal's original decision.

One last item I would like to draw your attention to is the status of our post-employment benefit plans. The net liability associated with our various post-employment benefit plans has decreased from $40.8 million at year-end to $18.3 million at the end of the third quarter. This decrease largely reflects the impact of very strong investment returns for our defined benefit pension plans and an improved situation for the interest rates used to measure the current value of our plan liabilities.

We are very pleased to report that by quarter-end, the net liability of our two defined benefit plans had been eliminated.

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.