Fourth Quarter Conference Call

Conference Call Script – Wednesday, February 19, 2014

Peter Winkley

Good morning everyone and welcome to the Algoma Central Corporation Fiscal 2013 Year-End and Fourth 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 news release. We expect to make our SEDAR filings early next week. In the meantime, thank you for joining us to get an overview of our 2013 financial results.

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 had some notable achievements during the fourth quarter of 2013 which Greg will touch on further in a few minute. That said, we are disappointed with our financial results. The construction and agriculture sectors remained challenging, although by the end of the year we were beginning to see a positive impact from the record grain harvest in western Canada. Winter weather struck early and hard throughout the Great Lakes region adversely affecting not only vessel operating conditions and productivity during November and December but also the performance of railways in their movement of grain to Thunder Bay for transshipment onto vessels.

As expected, the end of the Canadian Wheat Board single trading desk had an impact on grain shipping activity throughout the year and we did see more seasonality in grain shipments than experienced in recent years. We were encouraged that customer demand for grain shipments strengthened considerably during the fall, following a record Canadian grain harvest. Consolidated revenue for the year was $491.5 million compared to $527.9 million. The decrease in revenue for the year all occurred prior to the fourth quarter and revenues for Q4 were $148.9 million compared to $148.7 million last year. There are some segment specific differences that I will cover in a moment.

Segment earnings after tax for fiscal 2013 were $46.1 million compared to $59.8 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 is before considering foreign exchange gains or losses and net interest expense, none of which is allocated to our business segments.

Our general and administration expenses are down from the prior year, which included the impact of arbitration costs incurred in 2012 and not repeated this year. These G&A costs are fully allocated and so reflected in the business segment results shown.

During the fourth quarter we collected amounts owed to us related to the cancellation in 2010 of three ocean tanker construction contracts and the interest on this refund of $3.8 million is included in interest income.

Also in the fourth quarter, we concluded a tax dispute related to the valuation of some northern Ontario land sold in 1997. Settlement of this issue resulted in tax cost of $4.6 million. There was also interest income and interest expense of approximately $2.0 million each. These amounts roughly offset, although both the interest income and interest expense lines are grossed up by this transaction.

Finally, the deterioration in the Canadian dollar over the course of 2013 has generally resulted in foreign exchange gains where last year we were experiencing losses on Canadian dollar strength.

Net earnings for the year were $41.9 million compared to $42.2 million for 2012, and earnings per share were $1.08 for both years.

For the fourth quarter, net earnings and earnings per share were $ 22.8 million and 59 cents compared to $24.3 million and 62 cents last year.

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

Domestic dry-bulk revenues for fiscal 2013 were $323.0 million compared to $375.6 million for 2012. For the fourth quarter, revenues were $102.6 million compared to $112.4 million in 2012. Tonnage carried was 9.1% lower for 2013, particularly due to decreases in the agriculture and construction sectors. This was particularly acute in the agriculture sector where the loss of single desk status for the Wheat Board and the emergence of new competitors in the market had a profound impact on grain movements. In particular, we saw much lower movement of grains to St. Lawrence through most of 2013 compared to what we would have seen in prior periods. This change combined with some vessel incidents early in the year, resulted in 7.8% fewer operating days than for 2012.

Revenue from the agricultural sector in Q4 was lower in 2013 than the prior year in part due to delays farmers faced getting their crops shipped by rail to Thunder Bay.

The domestic dry-bulk segment after-tax operating earnings were $14.9 million for the year compared to $32.4 million reported for 2012 and for the quarter were $14.6 million compared to $21.5 million. The drop is attributable to the lower revenues.

Our Product Tanker segment continued its strong performance in the fourth quarter. Revenues from Product Tankers for the year of $100.6 million were at their highest level ever and compared to $87.2 million in 2012. The fourth quarter, also a record, accounts for $29.2 million of these revenues compared to $22.3 million in 2012. Strong demand year round resulted in more chartering of capacity which drives revenues but on which we earn a small margin.

As a result of these strong revenues, segment earnings after tax were $3.1 million for the quarter and $13.7 million for the year, up from the $2.0 million and $9.3 million reported for the same periods last year. Segment earnings for the fourth quarter were lower than might be expected on the strong revenues principally because of regulatory dry-dockings required during the last quarter of the year. I would also like to remind you that the 2012 results also reflects arbitration related legal fees not repeated this year.

Turning to the results of Ocean Shipping, our share of Pool revenues for the fourth quarter was $15.9 million and for the year was $64.1 million compared to $12.9 million and $67.7 million for the same periods in 2012. The decrease for the two periods reflects the sale late in 2012 of one of our 50% owned vessels and a dry-docking late in the fourth quarter 2012 of one of our wholly owned vessels. While the sale of a 50% owned vessel impacted our share of Pool revenues for the quarter and our earnings from joint arrangements, it did not impact the revenues we report in our consolidated results that come from our 100% owned ships. Consolidated revenues reported for the fourth quarter therefore rose from $6.7 million last year to $9.8 million for 2013. As we had our other wholly owned vessel in dry-dock earlier in the year in 2012, our reported revenues for the full fiscal year rose by nearly 10% to $39.5 million as a result of the additional operating days in 2013 for our wholly owned ships.

After-tax earnings for the segment were $15.3 million for 2013 and $15.0 million last year. For the fourth quarter, these amounts were $3.4 million and $3.6 million respectively. Fourth quarter earnings for 2012 included a gain on the sale of the retired ship, which offset the loss of earnings from having a ship in dry-dock. Excluding the impact of that gain, segment earnings for Ocean Shipping are ahead of last year.

Revenue from our real estate segment, Algoma Central Properties, was $28.3 million compared to $29.2 million in 2012 and segment after-tax earnings were $2.2 million for

2013 compared to $3.1 million last year. The Sault Ste. Marie hotel delivered disappointing results all year as the hotel market in the city is very weak. Improved results from Station Mall and some improved leases compared to the same period last year helped results overall but could not offset the impact from the hotel.

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 was $105.2 million compared to $100.1 million in 2012. Although EBITDA was lower for 2013 compared to 2012, this was more than offset by a $32 million improvement in net working capital, reflecting a reduction in accounts receivable and the timing of an instalment payment on our next Equinox Class vessel, which was included in accounts payable at year-end.

Including this instalment payment, for the year we invested $51.9 million in capital assets, primarily related to vessel construction.

Also, at the end of the fourth quarter, we collected nearly $42 million of outstanding instalments from the cancelled tanker project, including interest. As a result, at the end of the year we had cash of $216 million and net working capital of $234 million. This is more than adequate to cover our Equinox Class construction costs and other commitments.

Our funded pension plans had a very strong year, recording actuarial gains of $25.7 million on extremely strong investment returns and discount rates that are beginning to return to levels closer to long-term norms. By year-end, our two funded pension plans were in surplus.

Our shareholders' equity at year-end was $561 million, or $14.42 per share. In January, our Board of Directors declared a 7¢ per share dividend payable on March 3rd to shareholders of record on February 17th.

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

Greg Wight – CEO Perspective and Outlook

Thank you, Peter.

The trend of significant accomplishments and the ongoing evolution of our ONE Vision, ONE Purpose, ONE Team strategic focus continued throughout 2013. Unfortunately, these accomplishments were somewhat overshadowed by the disappointing financial results that Peter has just reviewed.

That being said, the obvious highlight of 2013 was the arrival of the *Algoma Equinox* in Canada in late November. Twenty Algoma crew members began the long journey from Nantong Mingde Shipyard in China on October 1st with the vessel arriving in Port Cartier, Quebec on November 30th for the loading of its first cargo.

The *Algoma Equinox* is the first in a series of eight vessels being built at Nantong Mingde Shipyard. The series consists of four gearless bulk carriers and four self-unloading bulk carriers. Algoma will own six of the series, consisting of two gearless bulk carriers and the four self-unloading vessels. CWB Inc., formerly the Canadian Wheat Board, will own the other two gearless vessels which will be operated and managed by Algoma.

The Equinox Class represents the next generation of Great Lakes – St. Lawrence Waterway bulk cargo vessels. Algoma's $300 million investment in the six Equinox Class vessels demonstrates the Corporation's commitment to operating in a sustainable manner. These vessels have been designed to optimize fuel efficiency and operating performance thus minimizing their environmental impact. A 45% improvement in energy efficiency over Algoma's current fleet average is expected, resulting from the use of a modern, efficient Tier II compliant main engine, significantly increased cargo capacity and an advanced hull form that produces less resistance through the water. In addition, a fully integrated IMO approved exhaust gas scrubber will remove 97% of all sulphur oxides from shipboard emissions. The use of exhaust gas scrubbers represents the first application of an IMO approved integrated scrubber on the Great Lakes – St. Lawrence Waterway.

We expect the second Equinox Class gearless bulker, the *Algoma Harvester,* to arrive in Canada late in the second quarter with the two CWB Inc. vessels to arrive later in

2014. The four Equinox Class self-unloaders will follow throughout 2015. We are, however, disappointed that the delivery schedule for the Equinox Class vessels has slipped considerably from our original expectations. We continue to work with the Shipyard to accelerate the remaining delivery dates as much as possible. Offsetting this disappointment is the fact that the quality and workmanship of the Shipyard is very good. Our decision to develop an innovative and advanced vessel has taken more time than what might have been achieved with a lesser design but that said, we firmly believe we have made the right decision for Algoma, our customers and the environment.

We were also very pleased that the arbitration process relating to the cancellation of contracts to build three product tankers in China reached a successful conclusion in December 2013. These shipbuilding contracts contained provisions that permitted cancellation under certain conditions. These conditions were met in 2010 and, accordingly, Algoma issued notices of rescission to the shipyard seeking to cancel the contracts. The matter was taken to arbitration by the shipyard and hearings were conducted before a Tribunal in London in September 2012. The Arbitration Tribunal found in favour of Algoma in all matters in April 2013. Following this decision the shipyard sought leave to appeal and in November the UK commercial court rejected the shipyard's application. On December 27th the shipyard returned $37.9 million in installments advanced by Algoma together with interest in the amount of $3.8 million.

I am also pleased to note that for 2013 the total shareholders return which includes share appreciation and dividends for Algoma Central Corporation shareholders was 20%. By comparison, the S&P/TSX Composite Total Return Index increased by 13% for the same period. This follows total shareholder returns of 41% for 2012 and 11% for 2011. Over the ten-year period ended December 31, 2013, the total shareholder returns for the Corporations' common shares grew at a compound rate of 11%.

Our outlook for 2014 includes an optimistic view for Canadian grain exports following the record Canadian crop harvested in 2013. The North American steel industry also looks to continue current performance levels with persistent strong demand for steel products such as automobiles in North America. Finally, we expect shipments of construction materials such as aggregate products and cement to continue their recovery from the recession of 2009 and expect the movement of road control salt to be strong due to the extreme winter weather conditions currently being experienced.

In addition, we are very excited about the arrival in 2014 of more Equinox Class vessels and are looking forward to realizing the significant operating efficiencies these vessels will deliver.

In closing, I would like to remind you that the Annual Meeting of Shareholders will be held in St. Catharines on May 2, 2014. We invite you to attend and look forward to seeing you at that time.

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 do not hesitate to give Peter or me a call.