ALGOMA CENTRAL CORPORATION 2018 FINANCIAL RESULTS

For the Years Ended December 31, 2018 and 2017

ALGOMA CENTRAL CORPORATION TABLE OF CONTENTS

Management's Discussion and Analysis	1
Responsibility for Financial Statements	26
Independent Auditor's Report	27
Consolidated Financial Statements and Notes	29
Five-Year Summary	76
Shareholder and Investor Information	77

General

Algoma Central Corporation ("Algoma" or the "Company") operates through six segments, Domestic Dry-Bulk, Product Tankers, Ocean Self-Unloaders, Global Short Sea Shipping, Investment Properties and Corporate.

This Management's Discussion and Analysis ("MD&A") of the Company should be read in conjunction with its consolidated financial statements for the year ended December 31, 2018 and 2017 and related notes thereto and has been prepared as at March 6, 2019.

The MD&A has been prepared by reference to the disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on the Company, including its 2018 Annual Information Form, is available on the SEDAR website at *www.sedar.com* or on the Company's website at *www.algonet.com*.

The reporting currency used is the Canadian dollar and all amounts are reported in thousands of Canadian dollars, except for per share data, and unless otherwise noted.

Impact of Seasonality on the Business

The nature of the Company's business is such that the earnings in the first quarter of each year are not indicative of the results for the other three quarters in the year. Due to the closing of the canal system and the winter weather conditions on the Great Lakes - St. Lawrence Waterway, the majority of the Domestic Dry-Bulk fleet does not operate for most of the first quarter. In addition, significant repair and maintenance costs are incurred in the first quarter to prepare the Domestic Dry-Bulk fleet for the upcoming navigation season. As a result, first quarter revenues and earnings are significantly lower than those of the remaining quarters in the year.

Use of Non-GAAP Measures

The following summarizes non-GAAP financial measures utilized in the MD&A. As there is no generally accepted method of calculating these financial measures, they may not be comparable to similar measures reported by other corporations.

EBITDA refers to earnings before interest, taxes, depreciation, and amortization. The Company also includes EBITDA of discontinued operations and its share of the EBITDA of its equity interest in joint arrangements in this measure. EBITDA is not a recognized measure for financial statement presentation under generally accepted accounting principles as defined by IFRS. EBITDA is not intended to represent cash flow from operations and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by IFRS. The Company's EBITDA may also not be comparable to EBITDA used by other corporations, which may be calculated differently. The Company considers EBITDA to be a meaningful measure to assess its operating performance in addition to other IFRS measures. It is included because the Company believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business, and a version of it is used by credit providers in the financial covenants of the Company's long-term debt.

Adjusted Measures
Management assesses results on a reported and adjusted basis and considers both as useful measures of performance. Adjusted results remove items of note from reported results and are used to calculate the adjusted measure noted below. Items of note include certain items of significance that arise from time to time which management believes are not reflective of underlying business performance. We believe that adjusted measures provides the reader with a better understanding of how management assesses underlying business performance and facilitate a more informed analysis of trends.

Adjusted Basic Earnings per Share
The Company adjusts reported Basic Earnings per Share to remove the impact of items of note, net of income taxes, and any other items specified to calculate the Adjusted Basic Earnings per Share (page 4).

Return on equity is net earnings as a percent of average shareholders' equity.

Caution Regarding Forward-Looking Statements

Algoma Central Corporation's public communications often include written or oral forward-looking statements. Statements of this type are included in this document and may be included in other filings with Canadian securities regulators or in other communications. All such statements are made pursuant to the safe harbour provisions of any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2018 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price and the results of or outlook for our operations or for the Canadian, U.S. and global economies. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: on-time and on-budget delivery of new ships from shipbuilders; general economic and market conditions in the countries in which we operate; interest rate and currency value fluctuations; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; labour relations with our unionized workforce; the possible effects on our business of war or terrorist activities; disruptions to public infrastructure, such as transportation, communications, power or water supply, including water levels; technological changes; significant competition in the shipping industry and from other transportation providers; reliance on partnering relationships; appropriate maintenance and repair of our existing fleet by third-party contractors; health and safety regulations that affect our operations can change and be onerous and the risk of safety incidents can affect results; a change in applicable laws and regulations, including environmental regulations, could materially affect our results; economic conditions may prevent us from realizing sufficient investment returns to fund our defined benefit plans at the required levels; our ability to raise new equity and debt financing if required; weather conditions or natural disasters; our ability to attract and retain quality employees; the seasonal nature of our business; and, risks associated with the lease and ownership of real estate.

For more information, please see the discussion of risks in the Company's Annual Information Form for the year ended December 31, 2018, which outlines in detail certain key factors that may affect the Company's future results. The Annual Information Form can be found on the Company's website at www.algonet.com and on SEDAR at www.sedar.com. This should not be considered a complete list of all risks to which the Company may be subject from time to time. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider

these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. The Company does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives and may not be appropriate for other purposes.

Highlights

	2018	2017	2016
For the year ended December 31			
Revenue	**$ 508,201**	$ 452,947	$ 391,406
Net earnings	**$ 50,943**	$ 58,800	$ 33,315
Basic earnings per common share	**$ 1.32**	$ 1.51	$ 0.85
Continuing operations:			
Net earnings	**$ 50,943**	$ 34,972	$ 7,374
Basic earnings per common share	**$ 1.32**	$ 0.90	$ 0.19
At December 31			
Common shares outstanding	**38,421,615**	38,552,315	38,913,733
Total assets	**$ 1,111,893**	$ 1,100,290	$ 1,036,013
Total long-term financial liabilities	**$ 258,588**	$ 292,004	$ 240,555

Consolidated revenue for 2018 was $508,201, an increase of 12% compared to $452,947 reported for the same period in 2017, as a result of improved rates in both the Domestic Dry-Bulk and Ocean Self-Unloaders segments and increased customer demand in the Product Tankers segment. Revenue from the Global Short Sea segment, which we participate via joint ventures, is not included in the consolidated revenue figure. The Global Short Sea Shipping businesses generated revenues of $277,013 compared to $222,794 in 2017. The Company has a 50% interest in these businesses.

Net earnings from continuing operations was $50,943 compared to $34,972 for 2017. During the second half of 2018, the Company sent notice to a Croatian shipyard cancelling four shipbuilding contracts. In the 2018 fourth quarter the Company received a full refund, including interest, for one of the cancelled contracts. Subsequent to the 2018 year end, instalments on the remaining three contracts were refunded with interest.

Earnings for 2018 include a gain of $10,214 related to this contract cancellation (see note 10 of the Consolidated Financial Statements).

The Company uses EBITDA as a measure of the cash generating capacity of its businesses. The following table reconciles EBITDA to Net Earnings, the most nearly comparable IFRS measure. EBITDA for the 2018 year end was $128,748, an increase of 19% compared to the same period in 2017. EBITDA is determined as follows:

	2018	2017
Net earnings	**$ 50,943**	$ 58,800
Adjustments to net earnings:		
Depreciation and amortization	**55,714**	51,571
Impairment reversal, net of write-offs, on shipbuilding contracts	**(5,647)**	—
Interest income	**(13,752)**	(1,205)
Interest expense	**25,499**	4,843
Foreign currency gain	**(9,590)**	(5,946)
Income tax expense	**8,550**	13,524
Discontinued operations		
Gain on sale of real estate	**—**	(28,857)
Depreciation in discontinued operations	**—**	49
Income tax expense	**—**	4,612
Joint ventures		
Interest expense	**4,923**	2,433
Foreign exchange (gain) loss	**(1,079)**	911
Depreciation	**12,658**	7,037
Income tax expense	**529**	110
EBITDA	**$ 128,748**	$ 107,882

Summary of Quarterly Results

The results for the last eight quarters were as follows:

Year	Quarter	Revenue	Net Earnings (Loss)	Basic Earnings (Loss) per Share
2018	Quarter 4	$ 149,542	$ 26,003	$ 0.68
	Quarter 3	$ 158,729	$ 19,639	$ 0.51
	Quarter 2	$ 139,442	$ 14,445	$ 0.38
	Quarter 1	$ 60,488	$ (9,142)	$ (0.23)
2017	Quarter 4	$ 139,435	$ 15,973	$ 0.34
	Quarter 3	$ 137,200	$ 32,768	$ 0.84
	Quarter 2	$ 124,147	$ 29,164	$ 0.75
	Quarter 1	$ 52,092	$ (19,105)	$ (0.49)

The following summarizes the trailing twelve month results on an adjusted and unadjusted basis in each of the last eight quarters:

		Trailing Twelve Months				
Year	Quarter	Revenue	Net Earnings	Basic Earnings per Share	Adjustment to Basic Earnings per Share *	Adjusted Basic Earnings per Share
2018	Quarter 4	$ 508,201	$ 50,943	$ 1.32	$ (0.26)	$ 1.06
	Quarter 3	$ 498,094	$ 40,915	$ 1.06	$ 0.03	$ 1.08
	Quarter 2	$ 476,565	$ 54,044	$ 1.40	$ (0.27)	$ 1.13
	Quarter 1	$ 461,270	$ 68,763	$ 1.77	$ (0.62)	$ 1.16
2017	Quarter 4	$ 452,874	$ 58,800	$ 1.53	$ (0.62)	$ 0.91
	Quarter 3	$ 444,017	$ 31,074	$ 0.80	$ (0.04)	$ 0.76
	Quarter 2	$ 424,551	$ 36,811	$ 0.95	$ (0.23)	$ 0.72
	Quarter 1	$ 399,671	$ 20,908	$ 0.54	$ 0.12	$ 0.66

* The following table summarizes the Adjustment to Basic Earnings per Share, by quarter, for certain items management believes are not reflective of underlying business performance.

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gain (loss) on shipbuilding contracts	$ 0.42	$ —	$ 0.16	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$(0.02)	$ 0.15
Impairment (provisions) reversals	—	—	—	(0.81)	—	—	—	—	—	—	—	0.13
Sale of real estate properties	—	—	0.31	0.22	—	0.35	0.28	(0.01)	—	—	—	—
	$ 0.42	$ —	$ 0.47	$(0.59)	$ —	$ 0.35	$ 0.28	$(0.01)	$ —	$ —	$(0.02)	$ 0.28
Trailing adjustment to EPS				$ 0.30	$(0.12)	$ 0.23	$ 0.04	$ 0.62	$ 0.62	$ 0.27	$(0.03)	$ 0.26

Business Segment Discussion

Domestic Dry-Bulk

The Domestic Dry-Bulk segment includes the activities of the Company's Canadian flag dry-bulk vessels and its ship management business. During 2018, the Company operated 12 self-unloading bulk carriers and 8 gearless bulk carriers in its fleet. One of the bulk carriers is owned by a third party.

Financial Results Overview

	2018	2017
Revenue	**$ 297,662**	$ 278,265
Operating expenses	**(224,191)**	(209,527)
Selling, general and administrative	**(11,194)**	(10,651)
	62,277	58,087
Depreciation and amortization	**(22,700)**	(18,691)
Gain on foreign currency forward contracts	**1,209**	3,687
Gain on cancellation of shipbuilding contracts	**12,862**	—
Income tax expense	**(10,482)**	(11,056)
Net earnings	**$ 43,166**	$ 32,027
Additions to property, plant, and equipment	**$ 415,017**	$ 503,036
Total assets	**$ 480,174**	$ 552,698

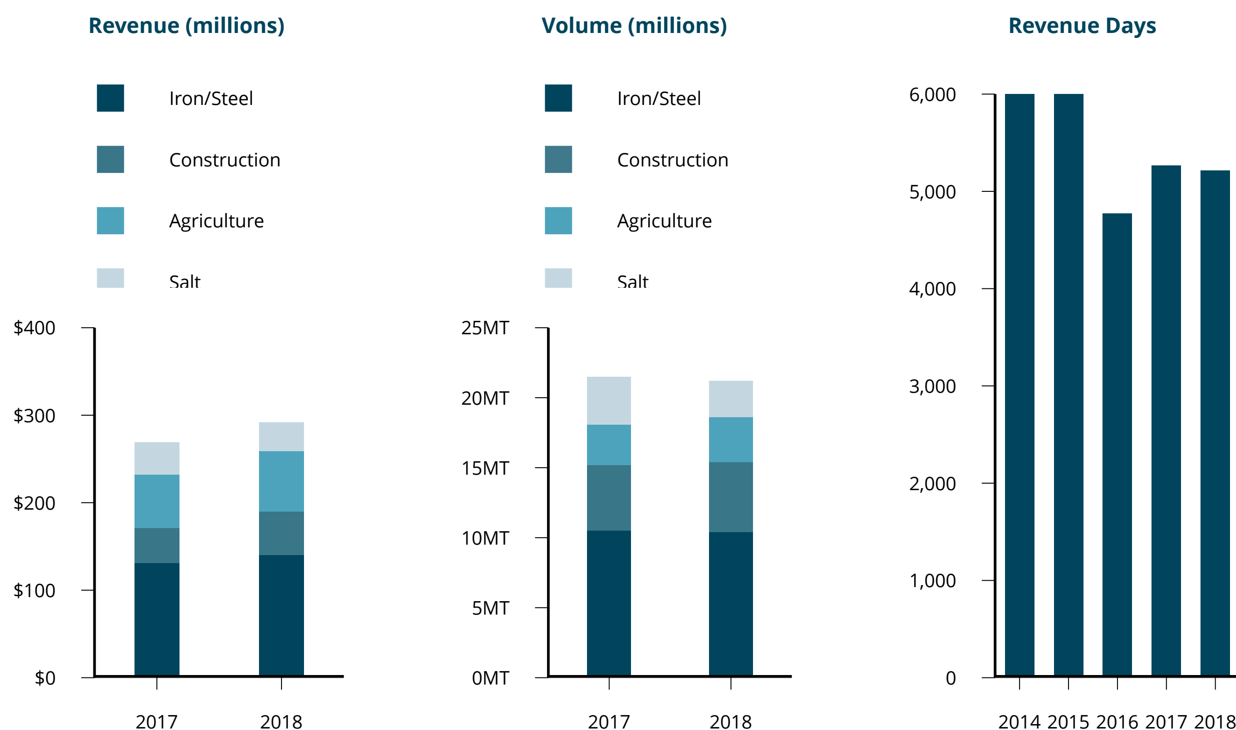
Revenues for Domestic Dry-Bulk increased by 7% compared to 2017. The increase was as a result of higher daily rates, including fuel recoveries, partially offset by shorter trip times caused by a mix of trades and changing trade patterns. In particular, a reduction in export ore volumes diverted the fleet's capacity to other more regional trades including new customers that were added during the year. Overall volumes were lower compared to 2017 but this was more than offset by higher gross freight rates.

Operating expenses increased by $14,664 mainly as a result of the need to hire outside charters due to unexpected out of service time for mechanical issues on one vessel and a 28% increase in fuel costs, corresponding with the higher fuel recovery mentioned above. Furthermore, five vessels were added to the the Domestic Dry-Bulk fleet, which for their first year of operation are not typically running at peak efficiency. The segment also experienced higher incident costs compared to last year.

Depreciation and amortization increased by $4,009 as a result of the addition of five vessels to the fleet.

EBITDA for Domestic Dry-Bulk was $62,277, an increase of 7% compared to the prior year. EBITDA is determined as follows:

	2018	2017
Net earnings (loss)	**$ 43,166**	$ 32,027
Adjustments to net earnings:		
Depreciation and amortization	**22,700**	18,691
Gain on foreign currency forward contracts	**(1,209)**	(3,687)
Gain on cancellation of shipbuilding contracts	**(12,862)**	—
Income taxes	**10,482**	11,056
EBITDA	**$ 62,277**	$ 58,087



Overall volumes decreased 2% in 2018 compared to last year. Export ore and salt decreased significantly as US trade policies and steel tariffs caused a shift in volumes and one of our major salt customers experienced production problems. The decrease was offset by new business and higher daily rates.

Volumes in agriculture and construction material saw an increase of 8% and 7%, respectively.

Revenue days were down 1% compared to last year. The decrease in export ore was the largest contributor, offset by new contracts and added volumes in other sectors.

Fleet Renewal

The Company added three new Equinox Class vessels to operations this year, the *Algoma Niagara*, the *Algoma Sault* and the *Algoma Innovator*. Additionally, the *Algoma Buffalo* and the *Algoma Compass*, were acquired from American Steamship Company late in 2017; both vessels began operations at the start of the 2018 navigation season. The Company retired six vessels, that were beyond their useful life, from the Domestic Dry-Bulk fleet which resulted in a $3,555 gain on the sale of assets.

The final ship under construction, the *Algoma Conveyor,* a Seawaymax 740' self-unloader, was completed in 2018 and began its voyage from the shipyard in China to Canada following completion of sea trials and fit-out in February 2019. The ship is expected to arrive in Canada and begin operations near the start of the 2019 navigation season.

During the fourth quarter of 2018, the Company announced the cancellation of the four remaining new build contracts with a Croatian shipyard (the "Yard"). Notices were sent to the Yard after its failure to secure re-financing and the Company had no assurance that it would be able to complete the four vessels. Subsequent to year end, Algoma received a full refund of all instalment payments, including interest, in connection with the cancelled contracts for a total of $66,365.

Fleet renewal remains a priority for the Company. Our objective is to be a low cost, dependable, flexible and efficient service provider. One challenge that the Company and the industry is facing is finding and hiring qualified crew members. Algoma is ramping up recruitment and training efforts in order to hire and retain qualified crew members.

At the end of the 2018 fourth quarter all of the Company's domestic dry-bulk collective agreements were ratified and will now be in force until 2023. This includes four officer contracts represented by the Canadian Merchant Service Guild (CMSG), and unlicensed seafarer collective agreements with the Seafarers International Union (SIU). The renewed

agreements provide for competitive compensation packages and increased flexibility in crew utilization and scheduling. Changes were also made to provide greater security for Algoma's customers and shipboard employees.

Outlook

In 2018, crewing was our greatest challenge domestically and this is expected to continue into 2019. The industry-wide shortage of qualified seafarers, particularly navigation officers, has resulted in a major shortage of qualified pilots. The Company and our competitors are investing in training and we will continue to increase our recruitment efforts in an attempt to hire, train and retain qualified seafarers.

Early indications suggest a strong rate environment will continue through 2019 and the Company expects maintained strength in the market. There will be one less vessel operating in our fleet in 2019 than the prior year due to contract cancellations. Algoma is confident that capacity will be available to meet the needs of customers.

Product Tankers

The domestic product tanker fleet provides safe and reliable transportation of liquid petroleum products throughout the Great Lakes, St. Lawrence Waterway and Atlantic Canada regions. This business unit consists of seven double-hull product tankers.

Financial Results Overview

	2018	2017
Revenue	**$ 106,271**	$ 86,274
Operating expenses	**(88,070)**	(68,457)
Selling, general and administrative	**(2,257)**	(2,631)
	15,944	15,186
Depreciation and amortization	**(9,867)**	(9,616)
Income tax expense	**(1,475)**	(1,956)
Net earnings	**$ 4,602**	$ 3,614
Additions to property, plant, and equipment	**$ 110,085**	$ 92,957
Total assets	**$ 118,309**	$ 104,695

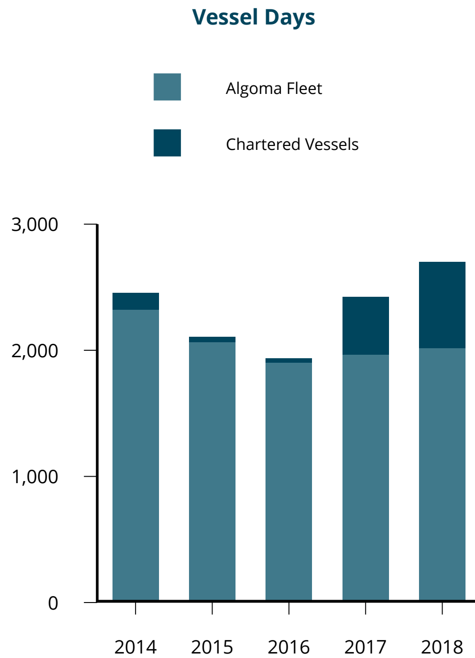
Revenue for Product Tankers increased by $19,997 compared to 2017. This was as a result of increased customer demand from our major customer. As demand exceeded the capacity of our fleet we increased our use of outside charters.

Operating expenses increased by $19,613 compared to the previous year mainly as a result of the increase in outside charters. Although these charters have positively affected revenue, the cost to operate these vessels is typically more expensive than our owned fleet, resulting in minimal earnings from chartered vessels. The increase in expenses was also due to higher repair costs on four vessels with planned dry-dockings during the year and the addition of one vessel to the fleet which had initial fit-out costs.

EBITDA for Product Tankers was $15,944, an increase of 5% compared to the prior year. EBITDA is determined as follows:

	2018	2017
Net earnings	**$ 4,602**	$ 3,614
Adjustments to net earnings:		
Depreciation and amortization	**9,867**	9,616
Income taxes	**1,475**	1,956
EBITDA	**$ 15,944**	$ 15,186

The increasing demand has led to a steadily increasing need for additional vessel capacity and outside charters rose from 33 days in 2016 to 457 in 2017 and 683 in 2018. We responded to this pattern of increased demand by adding a new tanker in December of 2018, increasing our fleet capacity in large ships by 20%.



Refinery turn-arounds and reduced pressure in certain pipelines increase the need to add capacity which leads to outside chartered vessels. The segment saw a 49% increase in overall charter days compared to 2017 as a result of the strong demand from our major customer.

There was also a 3% increase in revenue days as a result of this customer demand part of which was the addition of one vessel to the fleet late in the year.

At the beginning of December, the *Algonorth,* a 2008-built product tanker, joined the Algoma fleet. This added capacity will enable the company to service more demand and it is expected that it will aide in reducing the need to hire outside charters.

Outlook

Strong customer demand is expected to continue in 2019. The fleet is forecasted to be in full utilization, improving our commercial margin. Near-term projections from our customers indicate demand will continue and in February, 2019 the Company added a second additional ship. Delivery of the 2010-built vessel is expected to occur mid-March, with the ship beginning operations in Canada shortly thereafter. With the increased fleet size, securing qualified crew with tanker endorsements will be an area of focus in 2019 as not all qualified domestic sailors have these extra tanker qualifications.

Ocean Self-Unloaders

The Ocean Self-Unloader segment consists of five ocean-going self-unloading vessels, a 50% interest in a sixth self-unloader and a 25% interest in a specialized ocean vessel. The five self-unloaders are part of the world's largest pool of ocean-going self-unloaders (the "Pool"), which at the end of 2018 totalled 18 vessels.

Financial Results Overview

		2018		2017
Revenue	**$**	**90,277**	$	74,912
Operating expenses		**(57,026)**		(42,652)
General and administrative		**(2,338)**		(897)
		30,913		31,363
Depreciation and amortization		**(19,394)**		(16,812)
Earnings (loss) from joint venture		**717**		(1,704)
Net earnings	**$**	**12,236**	$	12,847
Additions to property, plant, and equipment	**$**	**174,824**	$	169,098
Total assets	**$**	**202,339**	$	198,082

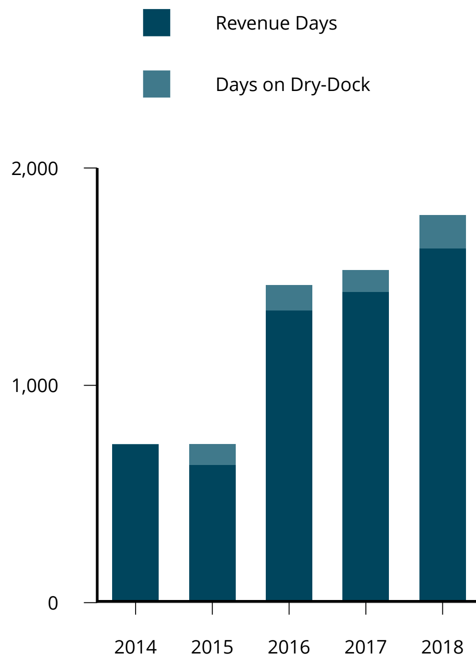
Algoma shares in the Pool's commercial results and reports a pro-rata share of Pool revenue and voyage costs (in operating expenses) for five 100% owned ships. Vessel operating expenses for these ships are recorded in operating expenses. Earnings from partially owned ships are included in the Company's joint venture, Marbulk. Algoma does not incur selling expenses on ocean self-unloader business, but instead pays a commercial fee to the Pool manager, which is reflected as an operating expense.

Revenue in the Ocean Self-Unloader segment increased by $15,365 compared to 2017. The strong increase was a result of improved rates and the fleet being in full utilization with the *Algoma Integrity* returning to the Pool in early 2018; in 2017, the *Algoma Integrity* was operating as part of our Domestic Dry-Bulk fleet.

Operating expenses increased by $14,374 compared to the previous year due to higher fuel costs, repair costs on one vessel and higher fit-out costs on the *Algoma Integrity* after the vessel returned from domestic operations. In addition, the *Bahama Spirit* was in dry-dock during the first and second quarter of 2018.

EBITDA for Ocean Self-Unloaders was $33,594 compared to $33,173 for the prior year. EBITDA is determined as follows:

		2018		2017
Net earnings	**$**	**12,236**	$	12,847
Adjustments to net earnings:				
Depreciation and amortization		**19,394**		16,812
Joint Venture:				
Depreciation and amortization		**1,855**		1,970
Interest expense		**706**		708
Foreign exchange (gain) loss		**(1,210)**		1,019
Other expense		**349**		—
Income tax expense (recovery)		**264**		(183)
EBITDA	**$**	**33,594**	$	33,173



In order to expand the ocean self-unloader business, Algoma entered into an agreement subsequent to the year end to acquire the interest held by Oldendorff Carriers GMBH & Co. in the CLSI Pool, including three vessels owned by Oldendorff and operating in the Pool, for US$100 million. The deal is expected to close in the second quarter of 2019, at which time Algoma's interest in the Pool will increase to approximately 40%.

Outlook

The outlook for 2019 is encouraging as volumes appear likely to remain strong. We look forward to adding the three acquired vessels to the fleet in the second half. Full fleet utilization is expected for the year, however the *Algoma Integrity* will undergo a significant dry-docking in 2019.

Global Short Sea Shipping

The Global Short Sea Shipping segment comprises three joint ventures in which we hold 50% interests; NovaAlgoma Cement Carriers ("NACC"), NovaAlgoma Short Sea Carriers ("NASC") and NovaAlgoma Bulk Holdings ("NABH"). These joint ventures with Nova Marine Carriers SA are a reflection of a strategic intent to enter the global short sea shipping sector, focusing on niche markets featuring specialized equipment or services and lacking an existing dominate player.

Financial Results Overview

	2018	2017
Revenue	**$ 277,013**	$ 222,794
Operating expenses	**(223,209)**	(196,314)
Selling, general and administrative	**(7,897)**	(6,784)
	45,907	19,696
Depreciation and amortization	**(20,330)**	(9,616)
Interest expense	**(8,435)**	(3,450)
Foreign exchange (loss) gain	**(262)**	217
Other income	**161**	—
Income tax expense	**(530)**	(585)
Net earnings of joint ventures	**1,492**	1,203
Net loss attributable to non-controlling interest	**(1,115)**	—
Net earnings	**$ 16,888**	$ 7,465
Company share of net earnings above	**$ 8,444**	$ 3,733
Amortization of vessel purchase price allocation and intangibles	**(638)**	(259)
Company share included in net earnings of joint ventures	**$ 7,806**	$ 3,474
Company share of net assets	**$ 149,122**	$ 98,425

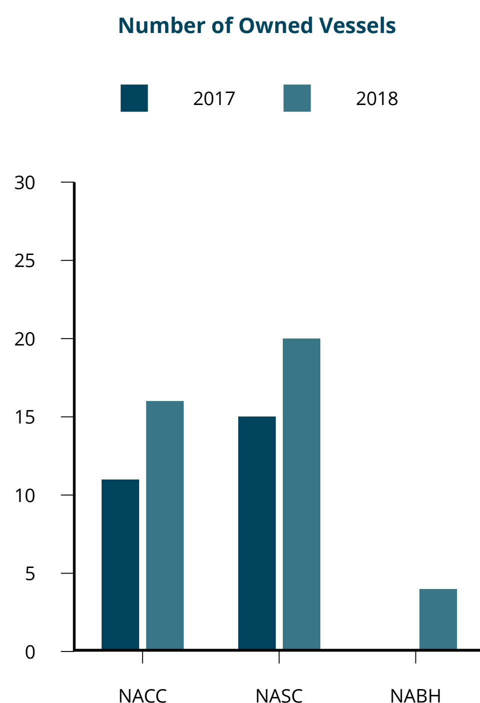
The figures above reflect 100% of the joint ventures in the Global Short Sea Shipping segment. The Company's 50% share of net earnings, adjusted for amortization arising from vessel purchase price allocation and intangibles, is included in net earnings of joint ventures in our Interim Condensed Consolidated Statement of Earnings.

Revenue for Global Short Sea Shipping was $277,013 for the twelve months ended December 31, 2018 and included a full 12 months of revenues from short sea bulk customers of NASC and six months of revenues from deep sea bulk customers of NABH. Revenue for 2017 was $222,794, including just 7.5 months of revenues from NASC and none from NABH. The increase in NASC revenue for the year was partially offset by a reduction in the number of vessels under management, which also resulted in a decrease in the corresponding charter hire operating expenses of those vessels. Revenues from cement customers of NACC increased as the fleet increased from 8.6 vessels on average for 2017 to 11.4 on average in 2018. This increase also caused an increase in vessel operating costs during the year.

The increase in selling, general, and administrative expenses in the year primarily reflects the impact of including the full year of operations for NASC.

Depreciation expense for the year increased from $9,616 in 2017 to $20,330. The increase resulted from the addition of 14 vessels, including five cement carriers, five short sea bulkers and four deep sea bulkers over the course of the year. The addition of these ships also resulted in increased interest expense on related vessel financings.

The Company owns partial interests in four short sea ships through a joint venture and the earnings from these vessels are reported as net earnings from joint ventures. The increase in joint venture earnings was driven by the inclusion of the business for 12 months, partially offset by reduced profitability of the ships. During the year, NASC acquired a controlling interest but not full ownership of seven vessels which then came under its management. The share of earnings from these vessels attributable to the non-controlling interest was $1,115.



The *NACC Argonaut* began operations domestically in 2018 bringing the total cement carriers owned by NovaAlgoma operating on the Great Lakes - St. Lawrence Waterway to three. The *NACC Argonaut* joined the fleet in July, 2018 after final construction in Turkey. In order to address the excess demand in the domestic market the *NACC Alicudi* was brought to North America during the 2018 third quarter to assist the other two vessels on certain trade routes.

In September, 2018, NASC created DNA Shipping, a commercial agreement with Peter Döhle Schiffahrts-KG of Hamburg, Germany. The agreement has pursued consolidation and growth within the multi-purpose project vessel (MPP) and 13,500 to 15,000 DWT mini-grabber dry-bulk markets.

A new joint venture, NovaAlgoma Bulk Holdings (NABH), was created. NABH has interests in four deep-sea bulkers operating internationally and is managed out of Lugano, Switzerland.

Outlook

The focus in 2019 will be to explore new opportunities in order to continue to expand our global footprint. For the NACC fleet the Company is looking at growing this business into new markets, for NABH the focus will be on finding opportunities for acquisitions. Additionally, six new builds are currently under construction and will join the NASC fleet upon completion beginning in late 2019.

Investment Properties

The Company owns a shopping centre and an apartment building located in Sault Ste. Marie, Ontario. During 2017, the Company suspended on-going discussions regarding the sale of the shopping centre and adjacent apartment building pending development of a plan to re-lease the vacant Sears Canada space. The Sears vacancy has created operating challenges for the shopping centre while the redevelopment plan is pursued.

Depreciation for the prior year included $2,800 resulting from the re-designation of the shopping centre and the apartment building as continuing operators. This re-designation resulted in depreciation that was not recorded while the properties were classified as discontinued operations being recorded in the year.

	2018	2017
Revenue	**$ 11,113**	$ 11,599
Operating expenses	**(7,300)**	(6,776)
	3,813	4,823
Depreciation	**(2,783)**	(4,991)
Income tax (expense) recovery	**(355)**	736
Net earnings	**$ 675**	$ 568

Corporate

The Corporate segment consists of revenue from management services to third parties, head office expenditures and other administrative expenses of the Company. Revenues are also generated from rental income provided by third party tenants in the Company's head office building. Operating expenses include the operating costs of that office building.

	2018	2017
Revenue	**$ 2,878**	$ 1,897
Operating expenses	**(873)**	(770)
Selling, general and administrative	**(12,975)**	(14,597)
	(10,970)	(13,470)
Depreciation	**(970)**	(1,461)
Foreign currency gain	**2,213**	2,259
Interest, net	**(11,577)**	(3,638)
Income tax recovery (expense)	**3,762**	(1,248)
Net loss	**$ (17,542)**	$ (17,558)

Consolidated

	2018	2017
Revenue	**$ 508,201**	$ 452,947
Operating expenses	**(377,460)**	(328,182)
Selling, general and administrative	**(28,764)**	(28,776)
	101,977	95,989
Depreciation and amortization	**(55,714)**	(51,571)
Impairment reversal	**6,864**	—
Interest expense	**(25,499)**	(4,843)
Interest income (see note on cancellation below)	**13,752**	1,205
Foreign currency gain	**9,590**	5,946
Income tax expense	**(8,550)**	(13,524)
Earnings of joint ventures	**8,523**	1,770
Net earnings from continuing operations	**$ 50,943**	$ 34,972

Revisions to Prior Year Comparatives

In the second quarter of 2018, the Company identified an immaterial error relating to an unrealized mark-to-market loss on a foreign exchange forward contract that was recorded as of December 31, 2017 resulting in a reduction in reported 2017 net earnings of $2,605, and a subsequent mark-to-market gain resulting in an increase to reported March 31, 2018 net earnings of $1,689. Certain comparative figures have been revised to reflect the correction of this error. See note 5 of the Interim Consolidated Financial Statements.

Interest Expense

	2018	2017
Interest expense on borrowings	**$ 17,762**	$ 16,787
Amortization of financing costs	**1,109**	1,671
Interest on employee future benefits, net	**319**	270
Interest capitalized on vessels under construction	**(6,570)**	(13,885)
Reversal of interest previously capitalized on shipbuilding contracts (see note on cancellation below)	**12,879**	—
	$ 25,499	$ 4,843

Net interest expense increased by $20,656 in 2018 compared to 2017 as a result of the cancellation of four construction contracts and the reversal of previously capitalized interest on these four vessels.

Interest is capitalized on vessels under construction and relates to interest incurred on payments made to various shipyards for the construction of Equinox Class vessels.

Foreign Currency Translation and Unrealized Gain on Foreign Currency Exchange Contracts

	2018	2017
Gain on foreign denominated cash	**$ 1,959**	$ 2,008
Gain on return of capital from foreign subsidiary	**254**	252
Foreign exchange gain on vessel construction instalments (see note on cancellation below)	**6,168**	—
Unrealized gain on foreign currency	**1,209**	3,686
	$ 9,590	$ 5,946

The gain on return of capital from a foreign subsidiary for 2018 and 2017 reflects the gains on U.S. dollar cash returned from the Company's non-controlled foreign investee.

Foreign exchange forward contracts are utilized by the Company on certain purchase commitments to assist in managing its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join its Canadian flag domestic dry-bulk fleet. Gains and losses on the foreign currency

exchange contracts relates to the contracts being marked-to-market as a result of the fluctuation in the period of their fair value. The contracts were deemed to be ineffective for hedge accounting purposes as the maturity dates of the contracts ceased to coincide with the expected date of the payments to the shipyard as production schedules provided by the shipyards changed.

Cancellation of Shipbuilding Contracts

During 2018, the Company sent notice to the Croatian shipyard of its intention to cancel four shipbuilding contracts. Under the terms of the construction contract, the Company had a unilateral right to cancel. Algoma exercised its option due to significant delays in delivery dates as a result of the shipyard's difficulties to secure financing and cancelled all four contracts. In December 2018, the Company received a full refund, including interest, for one of the cancelled contracts and subsequent to the 2018 year end, refunds were received for the remaining three contracts.

The impact to the Statement of Earnings is as follows:

	2018	2017
Impairment reversal	**$ 6,864**	
Increase income on instalments	**12,709**	$ —
Write-off of supervision and other direct costs	**(1,217)**	—
Write-off of capitalized interest relating to ship construction	**(12,879)**	—
Foreign exchange gain	**6,168**	—
Gain on cancellation of shipbuilding contract	**$ 11,645**	$ —
Income tax expense	**(1,431)**	—
	$ 10,214	$ —

The net impact to the Balance Sheet is as follows:

	2018	2017
Decrease to property, plant and equipment	**$ (105,194)**	$ —
Increase to other current receivables	**$ 68,040**	$ —

Income Tax Provision

	2018	2017
Combined federal and provincial statutory income tax rate	**26.5%**	26.5%
Earnings before income tax from continuing operations and net earnings of joint ventures	**$ 50,970**	$ 46,726
Expected income tax expense	**$ (13,507)**	$ (12,382)
(Increase) decrease in expense resulting from:		
Effect of items that are not (deductible) taxable	**2,440**	(2,009)
Foreign tax rates different from Canadian statutory rate	**3,189**	4,244
Non-recoverable withholding taxes	**—**	(990)
Effect of transferring international assets into domestic operations	**—**	(2,364)
Reclassification from discontinued operations	**—**	887
Adjustments to prior period provision	**(537)**	(1,487)
Other	**(135)**	577
Actual tax expense	**$ (8,550)**	$ (13,524)

Earnings from the Company's foreign subsidiaries are taxed in jurisdictions which have nil income tax rates.
The Canadian statutory rate for the Company for both 2018 and 2017 was 26.5%. Any variation in the effective income tax rate from the statutory income tax rate is due mainly to the lower income tax rates applicable to foreign subsidiaries, the effect of taxable and non-taxable items that may or may not be included in earnings and changes to income tax provisions related to prior periods.

Comprehensive Earnings

The comprehensive earnings for the year ended 2018 were $56,130 compared to $37,315 in 2017. The increase in comprehensive earnings for the year end was primarily due to an unrealized gain on the translation of financial statements of foreign operations, offset by an unrealized loss on hedging instruments and lower net earnings.

The actuarial loss for employee future benefits, net of income tax in 2018 was $7,475 compared to $1,823 in 2017.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

		2018		2017
Net earnings from continuing operations	**$**	**50,943**	$	34,972
Operating activities	**$**	**80,110**	$	59,669
Investing activities	**$**	**(43,714)**	$	(197,373)
Financing activities	**$**	**(81,156)**	$	30,379
Cash from discontinued operations	**$**	**—**	$	49,898

Operating Activities

Net cash generated from operating activities for the year ended 2018 was $50,943 compared to cash generated of $34,972 in the same period in 2017. This was mainly as a result of higher earnings from both continued operations and earnings from joint ventures.

Investing Activities

Net cash used in investing activities for the years ended 2018 and 2017 was primarily used for instalments on one new Equinox Class vessel that was under construction and investments in Global Short Sea Shipping. Net cash used in investing activities was significantly lower due to the Company receiving the cancellation refund payments.

Financing Activities

Net cash used in financing activities relates to increased re-payments on long-term debt. This resulted in a significant decrease in cash at the end of the period compared to the prior year.

Capital Resources

The Company has cash on hand of $25,539 at December 31, 2018. Available credit facilities along with projected cash from operations for 2019 are expected to be more than sufficient to meet the Company's planned operating and capital requirements and other contractual obligations for the year.

The Company maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs. The Company's bank credit facility (the "facility") expires July 15, 2020 and comprises a $50 million Canadian dollar and a $100 million U.S. dollar senior secured revolving bank credit facility provided by a syndicate of seven banks. The Facility bears interest at rates that are based on the Company's ratio of senior debt to earnings before interest, taxes, depreciation and amortization and ranges from 150 to 275 basis points above bankers' acceptance or LIBOR rates. The Company has granted a general security agreement in favour of the senior secured lenders and has granted specific collateral mortgages covering its wholly owned vessels. The Company's real estate assets and vessels that are not wholly owned are not directly encumbered under this Facility.

The Company is subject to certain covenants including ones with respect to maintaining defined financial ratios and other conditions under the terms of the Bank Facility and the Notes. As at December 31, 2018, the Company was in compliance with all of its covenants.

Labour Update

Employees and Unions

The normal complement of employees is approximately 2,000, the majority of whom are unionized. Details of the status of the various union agreements are provided below.

Shipboard Managers

All Captains and Chief Engineers of the Company are non-unionized.

Navigation and Engineering Officers are represented by six separate bargaining units of the Canadian Merchant Service Guild. Two of these agreements expire on July 31, 2021 and four other agreements expired on May 31, 2023.

Unlicensed Employees

There are three unlicensed bargaining units for shipboard employees. The Seafarers' International Union (SIU) represents two unlicensed employee bargaining units and the Canadian Maritime Union, a unit of Unifor, represents one unlicensed employee bargaining unit.

The collective bargaining agreement with one bargaining unit of the SIU expired on July 31, 2018, with bargaining currently underway. The second collective bargaining agreement with the SIU expires on May 31, 2023.

The collective agreement with UNIFOR expires on March 31, 2023.

Algoma Ship Repair

The collective agreement between Algoma Ship Repair and its hourly paid workers, who are represented by the United Steelworkers, expires on May 31, 2019.

Normal Course Issuer Bid

On January 23, 2018, the Company filed a notice of intention to make a normal course issuer bid with the TSX advising of its intention to purchase, through the facilities of the TSX, up to 1,927,615 of its Common Shares representing approximately 5% of the 38,552,315 Common Shares which were issued and outstanding as at the close of business on January 16, 2018 (the "NCIB").

Subject to prescribed exceptions, the Company may purchase up to 1,838 Common Shares per day, representing 25% of the average daily trading volume of 7,353 Common Shares per day during the six months ending December 31, 2017. The Company may buy back Common Shares anytime during the 12-month period beginning on January 29, 2018 and ending on January 28, 2019, or on such earlier date as the Company may complete its purchases pursuant to the NCIB, or provide notice of termination. Share purchases under the NCIB will be conducted through the facilities of the TSX and other Canadian marketplaces/alternative trading systems. The actual number of shares purchased, and the timing of any such purchases, will be determined by the Company, in accordance with the rules of the TSX.

The Company is conducting the NCIB because management believes that purchases under the NCIB constitute a desirable use of its funds on the basis that recent market prices of the Common Shares do not, and at certain times during the course of the NCIB may not, fully reflect the value of the Company's business and future business prospects.

During the year ended December 31, 2018, 130,700 common shares were purchased for cancellation for a total cost of $1,892.

Contingencies

For information on contingencies, please refer to Notes 30 of the consolidated financial statements for the years ending December 31, 2018 and 2017. There have been no significant changes in the items presented since December 31, 2018.

Transactions with Related Parties

The Company's ultimate controlling party is The Honourable Henry N. R. Jackman, together with a trust created in 1969 by his father, Henry R. Jackman.

There were no transactions with related parties for the year ended December 31, 2018.

Three-Month Results Ending December 31, 2018 and 2017

	2018	2017	Favourable (Unfavourable)
Revenues			
Domestic Dry-Bulk	**$ 89,390**	$ 89,346	$ 44
Product Tankers	**32,190**	26,697	5,493
Ocean Self-Unloaders	**24,014**	19,838	4,176
	$ 145,594	$ 135,881	$ 9,713
Investment properties	**2,712**	2,868	(156)
Corporate	**809**	793	
	$ 149,115	$ 139,542	$ 9,557
Operating earnings net of income tax			
Domestic Dry-Bulk	**$ 26,622**	$ 17,479	$ 9,143
Product Tankers	**458**	651	$ (193)
Ocean Self-Unloaders	**3,991**	4,742	$ (751)
Global Short Sea Shipping	**1,854**	945	$ 909
	$ 32,925	$ 23,817	$ 9,108
Investment Properties	**89**	1,067	(978)
Corporate	**(7,013)**	(8,383)	1,370
Net earnings from continuing operations	**$ 26,001**	$ 16,501	$ 9,500
Net loss from discontinued operations	**—**	(530)	530
Net earnings	**$ 26,001**	$ 15,971	$ 10,030
Basic earnings per share			
Continuing operations	**$ 0.68**	$ 0.43	$ 0.25
Discontinued operations	**—**	(0.01)	—
	$ 0.68	$ 0.42	$ 0.25
Diluted earnings per share			
Continuing operations	**$ 0.64**	$ 0.41	$ 0.25
Discontinued operations	**—**	(0.01)	0.25
	$ 0.64	$ 0.40	$ 0.50

The Domestic Dry-Bulk segment earnings for the 2018 fourth quarter include a gain of $10,214 related to shipyard contract cancellations. Excluding this gain, earnings for 2018 decreased compared to 2017 as a result of fewer revenue days, however this was partially offset by higher daily rates.

The results for the Product Tanker segment for the 2018 fourth quarter decreased over 2017 due fewer revenue days as a result of the dry-docking of three vessels.

The Ocean Self-Unloaders segment results decreased in the fourth quarter of 2018 due primarily due to an increase in operating costs and increased depreciation related to earlier dry-docking activities. This was offset by the return of the *Algoma Integrity* to the Pool in 2018; in 2017 the vessel was operating as part of the domestic dry-bulk fleet.

Global Short Sea Shipping saw an increase in earnings in the fourth quarter of 2018 compared to 2017 as a result of the addition of NovaAlgoma Bulk Holdings (NABH) whereas prior year earnings were based solely on results from NACC and NASC. Additionally, there has been an increase in the NACC and NASC fleets compared to prior comparative period offset by a decrease in the amount of commercially managed vessels in the NASC fleet.

Critical Accounting Estimates

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements. Some of these accounting policies require management to make estimates and assumptions about matters that are uncertain at the time the estimates and assumptions are made. Management believes that the estimates are reasonable; however, different estimates could potentially have a material impact on the Company's reported financial position or results of operations.

Employee Future Benefits

The Company provides pensions and post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligations and expense for the employee future benefits is dependent on the selection of certain assumptions used by the Company in calculating such amounts. Those assumptions are disclosed in Note 23 to the Company's consolidated financial statements, the most significant of which are the discount rate, the rate of increase in compensation, expected rates of return on plan assets, the rate of increase in the cost of health care and the estimated average remaining service lives of employees, some of which are defined by regulation. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses as disclosed in Note 23 to the consolidated financial statements. The significant accounting assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's reported employee future benefit obligations and future expense.

Property, Plant, and Equipment and Impairment

The Company reviews the depreciation periods of property, plant, and equipment on a regular basis for changes in estimated useful lives. The Company also reviews for impairment indicators on a quarterly basis, and at a minimum on an annual basis, whether there are any signs of impairment or a reversal of a previously recognized impairment in accordance with the Company's accounting policy.

Change in Accounting Estimates

Employee Future Benefits

For 2018, the Company's assumed rate of compensation increases for purposes of calculating the current service cost that is included in the net benefit cost incurred, remained at 3.0% to 2020 and to 2.5% thereafter.

New Accounting Standards Applied

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement. This final version includes requirements on: (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets; and (3) general hedge accounting. Accounting for macro hedging has been decoupled from IFRS 9. The Company has an accounting policy choice to apply the hedge accounting requirements of IFRS 9 or IAS 39. The Company has made the decision to continue applying the IAS 39 hedge accounting requirements at this time and will comply with the revised hedge accounting disclosures as required by the related amendments to IFRS 7, Financial Instruments: Disclosures.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied. The Company has made the decision not to restate comparative period financial information and will recognize any measurement difference between the previous carrying amount and the new carrying amount as of the date of adoption, through an adjustment to opening retained earnings.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on an entity's business model and the nature of the cash flows of the assets. These categories replace the existing IAS 39 classifications of available-for-sale ("AFS"), loans and receivables, and held-to-maturity. Investments in equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 did not result in differences in the measurement bases of financial assets when compared to that utilized under IAS 39.

For financial liabilities, IFRS 9 includes the pre-existing requirements for classification and measurement previously included in IAS 39.

The following table illustrates the financial instrument classification under IAS 39 compared to the new classification and measurement categories under IFRS 9.

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash	Loans & Receivables	Amortized cost
Accounts Receivable	Loans & Receivables	Amortized cost
Contract Cancellation Receivable	Loans & Receivables	Amortized cost
Loans Receivable from Joint Venture	Loans & Receivables	Amortized cost
Accounts Payable and Accrued Charges	Other financial liabilities	Amortized cost
Derivative Assets	FVTPL	FVTPL
Derivative Liabilities	FVTPL	FVTPL
Dividends Payable	Other financial liabilities	Amortized cost
Long-Term Debt	Other financial liabilities	Amortized cost

As noted above, these new categories under IFRS 9 do not change the basis on which financial assets and liabilities are being measured by the Company.

Impairment

IFRS 9 introduces an expected credit loss impairment model to replace the incurred loss model under IAS 39 and is generally expected to result in earlier recognition of credit losses. Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The Company has assessed the new requirement and concluded the effect of the change was immaterial, as the Company anticipates very limited actual incurred losses on receivables, if any at all.

Revenue Recognition

In May 2014, the IASB issued the final version of IFRS 15, Revenue from Contracts with Customers, which replaces the detailed guidance on existing revenue recognition requirements and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognize revenue with the core principle being that entities should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The Principles in IFRS 15 must be applied using the following 5-step model:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the standard does not prohibit an entity from using alternative descriptions in the balance sheet. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company has elected to use the modified retrospective approach in accordance with paragraph C3(b) of IFRS 15 in transition to the standard, however, apart from providing more extensive disclosures of the Company's revenue transactions, the application of IFRS 15 has not had a material impact on the financial position and/or financial performance of the Company.

New Accounting Standards Not Yet Applied

Leases

IFRS 16, Leases, which was issued in January 2016, replaces IAS 17, Leases. Lessees are required to recognize a right-of-use asset and a lease liability for most leases on the balance sheet regardless of the former classification under IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
Right-of-use assets and lease liabilities will be amortized and accreted with a different pattern of expense being recognized in the statement of earnings. Under the new standard, enhanced disclosures are expected to give users of financial statements a basis to assess the effects of leases.

IFRS 16 will be effective for the Company's fiscal year beginning on January 1, 2019, and the Company chose to use the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17. In addition, the Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company is continuing to evaluate the impact of the adoption of IFRS 16 on the consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2018. Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, management has concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Internal Controls over Financial Reporting

The Company's management is responsible for designing, establishing and maintaining an adequate system of internal controls over financial reporting. The internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS. Because of inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

During the 2018 second quarter, management discovered an immaterial error in its financial reporting caused by a lapse in an internal control. In the fourth quarter of 2017 a foreign exchange forward contract was recorded without proper documentation resulting in erroneous recognition of a mark-to-market loss in the statement of earnings for the year ended December 31, 2017 and erroneous recognition of a mark-to-market gain in the statement of loss for the three month period ended March 31, 2018. Management has reviewed the processes for the recording of foreign exchange forward contracts with proper documentation and have remediated the associated internal control.

Management has used the criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal controls over financial reporting. Based on this assessment, management has concluded that the Company's internal controls over financial reporting are operating effectively as of December 31, 2018.

Changes in Internal Controls over Financial Reporting

During the year ended December 31, 2018, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Derivative Financial Instruments

The Company's exposure to foreign currency fluctuations is related to its unhedged cash balances and unhedged net investment in foreign subsidiaries. The Company has hedged part of its investment in the subsidiaries and joint ventures against its foreign denominated long-term debt. At December 31, 2018 and 2017, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $272,247 and $169,019 U.S. dollars, respectively. The amount used as a hedge at December 31, 2018 and 2017 was $75,000 and $95,000 U.S. dollars respectively.

The Company has significant commitments due for payment in U.S. dollars. The Company utilizes foreign exchange forward contracts and U.S. cash as a hedge on purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet. For payments due in U.S. dollars for foreign vessels, the Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2018 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €nil (December 31, 2017 - €78,662) and a fair value loss of $nil (December 31, 2017 - $7,377), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $14,000 (December 31, 2017 - $24,840) and fair value gain of $1,571 (December 31, 2017 - loss of $663). The contract maturities are as follows: 2019 - U.S. - $14,000.

Contractual Obligations

The table below provides aggregate information about the Company's contractual obligations at December 31, 2018 that affect the Company's liquidity and capital resource needs.

	2019	2020	2021	2022	2023 and Beyond	Total
Long-term debt including equity component	$ 130	$ 136	$ 177,458	$ 150	$ 87,698	$ 265,572
Capital asset commitments	25,238	22,509	—	—	—	47,747
Dividends payable	3,842	—	—	—	—	3,842
Interest payments on long-term debt	13,969	13,963	9,696	4,581	6,558	48,767
	$ 43,179	$ 36,608	$ 187,154	$ 4,731	$ 94,256	$ 365,928

Subsequent to year end, the Company paid the remaining amount due on the *Algoma Conveyor* after delivery of the vessel was taken in February, 2019.

Risks and Uncertainties

The following section describes both general and specific risks that could affect the Company's financial performance. The risks described below are not the only risks facing the Company. Additional risks and uncertainties that are not currently known or that are currently considered immaterial may also materially and adversely affect the Company's business operations.

Shipboard Personnel

The long-term challenge of recruiting and retaining skilled crews in the marine industry continues to be an area of focus. The challenge of recruiting new employees into the marine industry, competition for skilled labour from other sectors, competitors, or other entities operating in the marine industry is a growing challenge. The limited number of cadet berths is also a factor that needs to be addressed by the marine industry as a whole. A lack of properly skilled shipboard employees could lead to service delays and interruptions as the ability of the Company to fully utilize its domestic vessels could be affected. The Company continues to work with industry groups, its unions and educators to develop and enhance training programs to ensure an adequate supply of labour is available to meet its future needs.

Competitive Markets

Marine transportation is competitive on both domestic and international fronts. Marine transportation is subject to competition from other forms of transportation such as road and rail freight. Competition may decrease the profitability associated with any particular contract and may increase the cost of acquisitions. The Company strives to differentiate itself from the competition with superior customer service, having vessels suited to each customer's needs and maintaining a compliant, safe, efficient and reliable fleet.

Changes in general economic conditions or conditions specific to a particular customer may affect the demand for vessel capacity. The Company believes that due to the long-term nature of its service contracts, vessel configurations and geographic diversity it is well positioned in the market place and is able to withstand fluctuations in market conditions.

The geographic and operational diversity of the Company will help to mitigate negative economic impact to the sectors in which it operates.

Environmental

Environmental protection continues to be a dominant topic on the world legislative agenda and is a primary focus of the Company throughout its operations. Environmental issues such as aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases (GHGs) and marine protected areas continue to be scrutinized and regulated worldwide. A change in environmental legislation could have a significant impact on the Company's future operations and profitability.

The Company's fleets continue to monitor fuel sulphur levels in accordance with Emission Control Area (ECA) and Fleet Averaging requirements and remains in compliance with all requirements. The Company's highly efficient Equinox Class ships are equipped with closed-loop exhaust gas scrubbers designed to meet the stringent ECA SOx limits. Vessels equipped with scrubbers are able to meet emission standards while burning high sulphur fuels. The availability of high sulphur fuels may be impacted by future demand for this fuel or environmental regulations. The Company's other vessels are capable of using lower sulphur fuels to satisfy air emission rules, such as the upcoming 2020 global fuel sulphur cap, although the cost and availability of low sulphur fuels may present a risk. In addition there is no certainty the full cost of such fuels or cost related to converting to such fuels can be recovered from customers.

Mandatory energy efficiency plans and GHG reporting have been implemented by the International Maritime Organization (IMO) and further measures to reduce global GHG emissions from the marine sector are under discussion. Canada has put in place plans to price carbon pollution and will impose a fuel surcharge in provinces without carbon pricing plans, such as Ontario and New Brunswick, in 2019. There is also the potential for mandatory GHG reduction targets or global market-based measures such as fuel levies or carbon taxes to be applied to the marine industry in the future. If implemented, such measures could have an impact on operating costs that cannot be estimated at this time. The proposed federal carbon-tax is not well designed to address the operating realities of marine transportation and the impact on costs or if such costs can be recovered from customers is currently unclear.

Canada is a signatory to the IMO Ballast Water Convention. The Canadian government is currently developing amendments to its ballast water regulations to implement the international ballast water discharge standard for Canadian waters. These requirements, already in place in the United States, will require installation of ballast water treatment systems on the Company's vessels during future dry dockings. There are presently no U.S. Coast Guard approved ballast water treatment systems with operating limitations suitable for the Company's vessels that operate in the Great Lakes; the current imposition of unachievable ballast water regulations for these vessels presents an economic and regulatory risk to the Company. Installation of treatment systems on the Company's other (non-Great Lakes) vessels will have an impact on operating costs.

Nature of the Shipping Industry

The cyclical nature of the Great Lakes dry-bulk shipping industry may lead to decreases in shipping rates, which may reduce Algoma's revenue and earnings. The shipping business, including the dry-bulk market, has been cyclical in varying degrees, experiencing fluctuations in charter rates, profitability and volumes shipped. Algoma anticipates that the future demand for the Company's vessels and freight revenues will be dependent upon continued demand for commodities, economic growth in the United States and Canada, seasonal and regional changes in demand, and changes to the capacity of the Great Lakes fleet which cannot be predicted. Adverse economic, political, social or other developments could decrease demand and growth in the shipping industry and thereby reduce revenue and earnings.

Fluctuations, and the demand for vessels, in general, have been influenced by, among other factors:

- global and regional economic conditions;
- developments in international and Great Lakes trade;
- changes in seaborne and other transportation patterns, such as port congestion and canal closures;

- weather, water levels and crop yields;
- political developments; and
- embargoes and strikes.

Fees and Tolls

Certain critical aspects of the Great Lakes St. Lawrence water transportation system are managed by government and quasi-government agencies. These agencies typically charge fees or tolls for use of the system or for access to services that are required in order to use the system. Some of these agencies face the same shortage of qualified staff that is faced by the Company and in response, these entities have begun to compete more aggressively for staff. This is creating cost increases for companies in the industry both to retain qualified staff and in the form of high fees passed through by the agencies. The Company has attempts to mitigate the impact of these fees by hiring qualified staff; however, this may have the effect of increasing the Company's costs. The ability of the Company to recovery these cost increases from customers is uncertain.

Costs of Incidents

Operating vessels that can weigh up to approximately 40,000 tonnes when fully loaded and which carry materials that may be harmful to the environment is inherently risky. The potential costs that could be incurred by the Company because of these risks include damages caused to property owned by others, the cost of environmental contamination including fines and clean up costs, costs associated with damage to our own assets, and the impact of injuries sustained by our employees or by others. The Company has in place a system designed to guide its employees in the management of all of these risks and is focused on a process of learning and continuous improvement after any incident. The Company also carries insurance designed to provide financial mitigation of costs incurred as the result of an incident; however, there is no guarantee that the insurance coverage will be sufficient to provide full reimbursement of all costs, nor is there any assurance that such insurance will continue to be available in the future at a reasonable cost.

Foreign Exchange

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The foreign currency exchange risk to the Company results primarily from changes in exchange rates between the Company's reporting currency, the Canadian dollar, and the U.S. dollar. The Company's exchange risk on earnings of foreign subsidiaries is diminished due to both cash inflows and outflows being denominated in the same currency.

The Company has significant commitments due for payment in U.S. dollars and Euros. The Company mitigates the risk associated with the U.S. dollar payments principally through utilizing U.S. cash as a hedge on purchase commitments required under ship building contracts with foreign shipbuilders and foreign exchange forward contracts. The risks associated with exposure to the Euro are managed with foreign exchange forward contracts.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from its customers. The Company believes that the credit risk for accounts receivable is limited due to the tight credit terms given to customers, minimal bad debts experience and a customer base that consists of a relatively few large industrial concerns in diverse industries.

Employee Future Benefits

Economic conditions may prevent the Company from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any increase in the regulatory funding requirements for the Company's defined benefit pension plans, although a use of resources, is not expected to have a material impact on its cash flows. Effective January 1, 2010, the Company closed its defined benefit plans to new members and adopted defined contribution plans for all new employees.

Judicial and Other Proceedings

From time to time, the Company is a party to judicial, arbitration, or similar proceedings either as claimant or as respondent. Although the Company will take any actions it deems necessary to represent its interests in these proceedings, the ultimate outcomes of such proceedings are outside of the control of the Company. The realizable value of any assets and the exposure to liabilities associated with such proceedings may be different than the carrying value of those assets or liabilities on the financial statements of the Company.

Responsibility for Financial Statements

The consolidated financial statements of Algoma Central Corporation and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements were prepared by management in accordance with International Financial Reporting Standards and necessarily include some amounts that are based on estimates and judgements. Information used elsewhere in this annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss and that financial statements principally through its Audit Committee, which consists solely of outside directors. The Audit Committee meets periodically with management and the auditors to review results of audit examinations and financial reporting matters. The independent auditors appointed by the shareholders have full access to the Audit Committee, with and without management present.

The Audit Committee reviewed the financial statements in this report and recommended that they be approved by the Board of Directors.

Gregg A. Ruhl
President and Chief Executive Officer
March 6, 2019

Peter D. Winkley, CPA, CA
Chief Financial Officer
March 6, 2019

Deloitte.

Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Algoma
Central Corporation

Opinion
We have audited the consolidated financial statements of Algoma Central Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of earnings, comprehensive earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Lawrenson.

Chartered Professional Accountants
Licensed Public Accountants
March 6, 2019

Consolidated Statement of Earnings

For the years ended December 31 (in thousands of dollars)	Notes	**2018**	2017 (Note 7)
Revenue	8	**$ 508,201**	$ 452,947
Expenses			
Operations		**(377,460)**	(328,182)
Selling, general and administrative		**(28,764)**	(28,776)
		(406,224)	(356,958)
		101,977	95,989
Depreciation and amortization		**(55,714)**	(51,571)
Impairment reversal	16	**6,864**	—
Interest expense	11	**(25,499)**	(4,843)
Interest income		**13,752**	1,205
Foreign currency gain	12	**9,590**	5,946
		50,970	46,726
Income Tax Expense	13	**(8,550)**	(13,524)
Net Earnings of Joint Ventures	9	**8,523**	1,770
Net Earnings from Continuing Operations		**50,943**	34,972
Net Earnings from Discontinued Operations	35	**—**	23,828
Net Earnings		**$ 50,943**	$ 58,800
Basic Earnings per Share			
Continuing operations	25	**$ 1.32**	$ 0.90
Discontinued operations		**—**	0.61
		$ 1.32	$ 1.51
Diluted Earnings per Share			
Continuing operations	25	**$ 1.29**	$ 0.84
Discontinued operations		**—**	0.54
		$ 1.29	$ 1.38

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Earnings

For the years ended December 31 (in thousands of dollars)	2018	2017 (Note 7)
Net Earnings	**$ 50,943**	$ 58,800
Other Comprehensive Earnings (Loss)		
Items that may be subsequently reclassified to net earnings:		
Unrealized gain (loss) on translation of financial statements of foreign operations	**26,865**	(21,413)
Unrealized (loss) gain on hedging instruments, net of income tax	**(11,291)**	2,315
Foreign exchange gain on purchase commitment hedge reserve, net of income tax, transferred to:		
Net earnings	**(2,849)**	—
Property, plant, and equipment	**(63)**	(564)
Items that will not be subsequently reclassified to net earnings:		
Employee future benefits actuarial loss, net of income tax (Note 25)	**(7,475)**	(1,823)
	5,187	(21,485)
Comprehensive Earnings	**$ 56,130**	$ 37,315

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	Notes	2018	2017
			(Note 7)
Assets			
Current			
Cash		**$ 25,539**	$ 68,860
Accounts receivable	14	**72,714**	64,184
Income taxes recoverable		**18,826**	14,967
Assets of discontinued operations	35	**—**	973
Other current assets	15	**82,908**	12,998
		199,987	161,982
Employee Future Benefits	23	**2,452**	12,485
Property, Plant, and Equipment	16	**706,786**	769,845
Investment Properties	17	**19,465**	21,959
Goodwill and Intangible Assets	18	**15,653**	15,831
Investment in Joint Ventures	9	**153,289**	103,932
Other Assets	19	**14,261**	14,256
		$1,111,893	$ 1,100,290
Liabilities			
Current			
Accounts payable and accrued charges	20	**$ 67,032**	$ 69,622
Current portion of long-term debt	24	**130**	48,907
Income taxes payable		**7,343**	739
Liabilities of discontinued operations	35	**—**	1,488
Other current liabilities	21	**796**	5,848
		75,301	126,604
Other Long-Term Liabilities	22	**3,296**	4,925
Deferred Income Taxes	13	**48,430**	38,638
Employee Future Benefits	23	**23,853**	23,960
Long-Term Debt	24	**258,458**	243,097
		334,037	310,620
Commitments	29		
Shareholders' Equity			
Share Capital	25	**8,240**	8,268
Contributed Surplus		**8,839**	10,703
Convertible Debentures		**2,309**	2,309
Accumulated Other Comprehensive Loss	26	**(10,845)**	(23,507)
Retained Earnings		**694,012**	665,293
		702,555	663,066
		$1,111,893	$ 1,100,290

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(in thousands of dollars)	Share Capital (Note 25)	Contributed Surplus and Convertible Debentures	Accumulated Other Comprehensive Loss (Note 26)	Retained Earnings	Total Equity
Balance at December 31, 2016	$ 8,344	$ 16,547	$ (3,845)	$ 620,504	$ 641,550
Net earnings	—	—	—	58,800	58,800
Dividends	—	—	—	(12,188)	(12,188)
Repurchase and cancellation of common shares	(76)	(5,844)	—	—	(5,920)
Debenture issue	—	2,309	—	—	2,309
Other comprehensive loss	—	—	(19,662)	(1,823)	(21,485)
Balance at December 31, 2017 (Note 7)	$ 8,268	$ 13,012	$ (23,507)	$ 665,293	$ 663,066
Net earnings	—	—	—	50,943	50,943
Dividends	—	—	—	(14,749)	(14,749)
Repurchase and cancellation of common shares	(28)	(1,864)	—	—	(1,892)
Other comprehensive earnings (loss)	—	—	12,662	(7,475)	5,187
Balance at December 31, 2018	**$ 8,240**	**$ 11,148**	**$ (10,845)**	**$ 694,012**	**$ 702,555**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)	Notes	2018	2017
			(Note 7)
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Net earnings from continuing operations		**$ 50,943**	$ 34,972
Earnings of joint ventures	9	**(8,523)**	(1,770)
Items not affecting cash			
Depreciation and amortization		**55,714**	51,571
Gain on sale of assets		**(2,519)**	(585)
Impairment reversal	16	**(6,864)**	—
Other	27	**10,707**	11,216
Net change in non-cash operating working capital	27	**(19,488)**	(14,187)
Income taxes received (paid)		**3,475**	(18,024)
Employee future benefits paid		**(3,335)**	(3,524)
Net cash generated from operating activities		**80,110**	59,669
Investing			
Additions to property, plant, and equipment	27	**(67,808)**	(164,472)
Additions to investment properties	17	**(289)**	(213)
Cancellation refunds received	10	**48,796**	—
Distributions received from joint ventures	9	**26,545**	3,096
Investment in joint ventures	9	**(56,219)**	(36,369)
Interest received		**270**	1,205
Proceeds on sale of property, plant, and equipment		**5,261**	585
Net cash used in investing activities		**(43,444)**	(196,168)
Financing			
Interest paid		**(17,769)**	(15,728)
Proceeds of long-term debt		**98,090**	206,408
Repayments on long-term debt		**(145,208)**	(143,975)
Repurchase of common shares	25	**(1,892)**	(5,920)
Dividends paid		**(14,647)**	(11,611)
Net cash (used in) generated from financing activities		**(81,426)**	29,174
Net Change in Cash from Continuing Operations		**(44,760)**	(107,325)
Cash Generated from Discontinued Operations	35	**—**	49,898
Net Change in Cash		**(44,760)**	(57,427)
Effects of Exchange Rate Changes on Cash Held in Foreign Currencies		**1,439**	(3,752)
Cash, Beginning of Year		**68,860**	130,039
Cash, End of Year		**$ 25,539**	$ 68,860

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation (the "Company") is incorporated in Canada and is listed on the Toronto Stock Exchange. The address of the Company's registered office is 63 Church St, Suite 600, St. Catharines, Ontario, Canada. The consolidated financial statements of the Company for the twelve months ended months ended December 31, 2018 and 2017 comprise the Company, its subsidiaries and the Company's interest in associated and jointly controlled entities.

The principal subsidiaries are Algoma Shipping Ltd., Algoma International Shipholdings Ltd., Algoma Tankers Limited and Algoma Central Properties Inc. The principal jointly controlled entities are Marbulk Canada Inc. (50%), NovaAlgoma Cement Carriers Limited (50%), NovaAlgoma Short-Sea Holdings Ltd. (50%) and NovaAlgoma Bulk Holdings Ltd. (50%). In addition, Algoma Shipping Ltd. and Marbulk Canada Inc. are members of an international pool arrangement (the "Pool"), whereby revenues and related voyage expenses are distributed to each Pool member based on the earnings capacity of the vessels.

Algoma Central Corporation owns and operates the largest fleet of dry and liquid bulk carriers operating on the Great Lakes – St. Lawrence Waterway. The Company's Canadian flag fleet consists of self-unloading dry-bulk carriers, gearless dry-bulk carriers and product tankers. The Company also has one construction contract for an Equinox Class vessel for domestic dry-bulk service.

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Company's vessel fleet. The dry-bulk vessels carry cargoes of raw materials such as iron ore, grain, salt and aggregates and operate throughout the Great Lakes – St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. This segment also includes the operational management of vessels owned by other ship owners.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of Canadian flag tanker vessels operating on the Great Lakes, the St. Lawrence Seaway and the east coast of North America.

The Ocean Self-Unloaders marine transportation segment includes ownership of five ocean-going self-unloading vessels, a 50% interest in a sixth self-unloader and a 25% interest in a specialized ocean vessel. The ocean vessels are engaged in the carriage of dry-bulk commodities in worldwide trades.

The Global Short Sea Shipping segment includes the Company's 50% interests, through joint ventures, in NovaAlgoma Cement Carriers Limited, NovaAlgoma Short-Sea Holdings Ltd. and NovaAlgoma Bulk Holdings Ltd.

The nature of the Company's business is such that the earnings in the first quarter of each year are not indicative of the results for the other three quarters in a year. Due to the closing of the canal system and the winter weather conditions in the Great Lakes – St. Lawrence Waterway, the majority of the domestic dry-bulk fleet does not operate for most of the first quarter. In addition, significant repair and maintenance costs are incurred in the first quarter to prepare the domestic dry-bulk fleet for the upcoming navigation season. As a result, first quarter revenues and earnings are significantly lower than those for the remaining three quarters of the year.

2. STATEMENT OF COMPLIANCE

The Company has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies have been applied consistently within the consolidated financial statements.

The reporting currency used is the Canadian dollar and all amounts are reported in thousands of Canadian dollars, except for share data, unless otherwise noted.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 6, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The following are the principal accounting policies of the Company:

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-company transactions, balances, earnings and expenses are eliminated on consolidation.

Interests in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.

The Company has assessed its interests in joint arrangements in order to classify them as either joint operations or joint ventures. When making the assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. The Company has concluded that it has an interest in a joint operation through its participation in a self-unloader ocean-going Pool. The Company's interests in joint arrangements are the joint ventures and has accounted for these using the equity method.

Materials and Supplies

Materials and supplies consist primarily of fuel on board vessels and consumables which are recorded at the lower of cost and net realizable value with cost being determined on a weighted average basis.

Property, Plant, and Equipment

Vessels

Vessels include dry-bulk carriers, product tankers and vessels under construction. Vessels, including vessels under construction, are measured at cost less accumulated depreciation and accumulated impairments. Cost includes expenditures that are directly attributable to the acquisition up to the time the asset is ready for use and include installation costs, mobilization costs to the operating location, and borrowing costs on qualifying assets. All major components of the vessels, except for the dry-docking costs, are depreciated on a straight-line basis to the estimated residual value over their useful lives, which the Company initially estimates to be 25 to 30 years.

Depreciation

Depreciation is based on cost less residual value. Residual value is estimated as the lightweight tonnage of each vessel multiplied by the estimated scrap value per tonne less costs incurred to ready the vessel for disposal. The remaining useful life and residual value of the vessels are reviewed at least annually and depreciation for remaining future periods is adjusted accordingly.

Dry-docking

From time to time, vessels are required to be dry-docked for inspection and re-certification, at which time replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are afloat, are generally performed. These dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking, which may vary from two and a half to five years. The residual value of such components is estimated at nil. The useful lives of the dry-docking costs are reviewed at least annually based on market conditions, regulatory requirements and the Company’s business plans.

A portion of the cost of acquiring a vessel is allocated to the components expected to be replaced or refurbished at the next dry-docking. For new vessels, the initial dry-docking asset is estimated based on the expected costs related to the first dry-docking. The estimate is based on experience and history for similar vessels.

At subsequent dry-dockings, the costs comprise the actual costs incurred. Dry-docking costs may include the labour cost to effect replacements and repairs, the cost of parts and materials used, cost of travel, lodging and supervision of the Company’s personnel, and the cost of third party personnel to oversee a dry-docking, netted with any revenue which may be earned during the dry-docking period.

Investment Properties

Investment properties comprise a commercial and residential property held to earn rental income. Investment properties are measured at cost less accumulated depreciation. Real estate assets, including site improvements, are amortized on a straight-line basis over their useful lives, which the Company initially estimates to be 35 years. Tenant improvements include costs incurred to meet the Company's lease obligations and are classified as either tenant improvements owned by the landlord or tenant incentives. When the obligation is determined to be an improvement that benefits the landlord and is owned by the landlord, the improvement is accounted for as a capital expenditure and included in the carrying amount of investment properties in the consolidated balance sheets.

Leasing costs include initial direct costs associated with leasing activities such as commissions. These costs are included in the carrying amount of investment properties in the consolidated balance sheets.

Impairment of Long-Lived Assets

At the end of each reporting period, the Company reviews its long-lived assets to determine whether there is any indication that those assets have suffered impairment.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in net earnings.

Where an impairment loss subsequently reverses in whole or in part, the carrying value of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, not to exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in net earnings.

Goodwill

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying value, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit to nil and then to the other assets of the unit on a pro-rata basis based on the carrying value of each asset in the unit. Any impairment loss for goodwill is recognized directly in earnings in the consolidated statements of earnings. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight line basis over their estimated useful lives.

Assets Held for Sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction, available for immediate sale in present condition and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to dispose.

Operating Segments

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The President and Chief Executive Officer has authority for resource allocation and assessment of the Company's performance and is therefore the chief operating decision-maker.

Revenue Recognition

Revenues from marine operations are recognized pro-rata over the term of a voyage and are measured at the fair value of consideration received or receivable. Revenues from real estate rental operations with contractual rent increases are recognized on a straight-line basis over the terms of the respective leases.

Revenue is only recognized when the amount and stage of completion can be measured reliably, it is probable that economic benefits will flow to the Company, and the costs incurred and costs to complete the transaction can be measured reliably.

Foreign Currency

The individual financial statements of each group entity are maintained in the currency of the primary economic environment in which the entity operates (its functional currency). For purposes of the consolidated financial statements, the results and financial position of each group entity are expressed in Canadian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the Canadian dollar are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

Exchange differences on monetary items are recognized in earnings or other comprehensive earnings in the period in which they arise.

The assets and liabilities of the Company's foreign operations, whose functional currency is not the Canadian dollar, are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Earnings and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive earnings and accumulated in equity.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction, or production of assets that take a substantial period of time to prepare for their intended use are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in earnings in the period in which they are incurred.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying value is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee Future Benefits

The Company maintains defined benefit pension plans, defined contribution pension plans and other, unfunded, post-employment benefits including certain retirement obligations, life insurance and health care.

The asset or liability recognized in the balance sheets is the present value of the obligation of the plans at the balance sheet date less the fair value of plan assets, if any. The liability includes the present value of the obligations as determined by discounting the estimated future required payments using interest rates of high-quality long-term corporate bonds. All actuarial gains and losses that arise in calculating the present value of the obligations and the fair value of plan assets are recognized immediately in the Consolidated Statements of Comprehensive Earnings.

The cost of defined benefit and defined contribution pensions and other post-retirement benefits that relate to employees' current service is charged to earnings. The cost for the defined benefit plans is computed on an actuarial basis using the projected unit credit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected future health care costs.

Net interest consists of the interest cost on the defined benefit obligation and the expected return on defined benefit plan assets. Net interest is determined by applying the discount rate to the net benefit obligation or asset. The net interest income/expense is included in interest expense on the Consolidated Statements of Earnings.

Actuarial gains and losses arising from the employee future benefit plans are recognized immediately in other comprehensive earnings. Past service costs are recognized in earnings at the earlier of when the plan amendment or curtailment occurs or when the Company recognizes the related restructuring costs.

The Company's portion of the cost of defined contribution pensions is expensed as earned by employees.

Share-based Compensation

The Company grants share options to certain employees as compensation for services provided. The Company uses a Black-Scholes valuation option pricing model to estimate fair value for all share option compensation awards. The cost of the share options is based on the fair value estimated at the grant date and is recognized as compensation expense and contributed surplus over the service period required for employees to become fully entitled to the awards. This period is generally equal to the vesting period in addition to a period prior to the grant date. For the Company's share options, this period is generally equal to five years. When options are exercised, the amount initially recognized in the contributed surplus balance is reduced, with a corresponding increase in common shares.

The Company has various other share-based compensation plans where certain employees are awarded share units equivalent to the Company's common shares as compensation for services provided. The obligation related to share units is included in other liabilities. Compensation expense is recognized based on the fair value of the share units at the grant date adjusted for changes in fair value between the grant date and the vesting date over the service period required for employees to become fully entitled to the awards. For the Company's share units, this vesting period is generally equal to three years.

Income Taxes

Income tax expense represents the sum of the current and deferred tax.

Current tax

Current tax is based on taxable earnings for the period at applicable income tax rate for the associated jurisdiction. Taxable earnings may differ from earnings as reported in the Consolidated Statements of Earnings because of items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying values of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax

consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying value of its assets and liabilities.

Convertible Debentures

The convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. The conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company’s financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company’s designation of such instruments.

The Company is required to classify all financial assets as either fair value through profit or loss, fair value through other comprehensive income, or amortized cost based on the Company's business model and the nature of the associated cash flows. Financial liabilities are required to be classified as either fair value through profit or loss or amortized cost using the effective interest method.

The Company takes its own credit risk into account and that of the relevant counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments.

Financial assets

All financial assets, excluding derivative assets, are measured at amortized cost, less any impairment. Derivative assets are measured at fair value through profit and loss.

Financial liabilities

All financial liabilities, excluding derivative liabilities, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Derivative liabilities are measured at fair value through profit and loss.

Impairment of financial assets

Financial assets, other than those recorded at fair value as adjusted through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Transaction costs

Transaction costs related to financial assets and liabilities measured at fair value through profit and loss are recorded directly to net earnings and are included in financial expense. Transaction costs related to held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method.

Derivative Financial Instruments

The Company, including its interests in joint arrangements, may enter into a variety of derivative financial instruments to manage its exposure to changing fuel prices, interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured and adjusted to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net earnings immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in net earnings depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contracts, the terms of the embedded derivative are the same as those of a free standing derivative, and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in net earnings.

Hedges

The Company has elected to apply hedge accounting to its net investment in foreign subsidiaries with foreign denominated debt and its purchase commitments for shipbuilding contracts with foreign denominated cash and forward currency contracts.

At inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Furthermore, at inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting the changes in cash flows of the hedged item attributable to the hedged risk.

The hedge gains or losses are recognized in other comprehensive earnings to the extent the hedging relationship is effective. The hedging gain or loss relating to the ineffective portion is recognized immediately in net earnings.

Comprehensive Earnings

Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in foreign operations having a functional currency other than Canadian dollars, changes in the fair market value of derivative instruments designated as cash flow hedges net of amounts transferred out of comprehensive earnings, unrealized gains and losses on the foreign currency hedges, and the actuarial gains or losses on employee benefit plans. The components of comprehensive earnings or loss are disclosed in the Consolidated Statements of Comprehensive Earnings.

Accumulated other comprehensive earnings or loss is included in the Consolidated Balance Sheets.

Earnings Per Share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the consolidated earnings or loss available to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive shares. Such potentially dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share.

Related Party Transactions

The Company's related parties include any person or entity having control, joint control, or significant influence over the entity as well as any entities over which the Company has control, joint control, or significant influence. Transactions with related parties are valued on an arm's length basis.

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and earnings. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Critical accounting estimates and judgements are those that have a significant risk of causing material adjustment. Management believes that the following are the significant accounting estimates and judgements used in the preparation of the consolidated financial statements.

Recoverability of Assets and Useful Lives

The Company evaluates the carrying values of the long-lived assets which include property, plant, and equipment (made up primarily of vessels), investment in joint ventures, goodwill and intangible asset, and investment properties to determine if events have occurred that would require a modification of their carrying values. The valuation of long-lived assets, excluding goodwill, is reviewed quarterly based on events and changes in circumstances that could indicate that the carrying value of the assets might not be recovered. In assessing the recoverability of the long-lived assets, the Company reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand, and general market conditions. Goodwill is tested for impairment annually.

Judgement is used when determining the grouping of assets to identify their cash generating units (CGUs) for the purposes of testing for impairment. The Company has determined that the appropriate levels for CGU groupings for assessing impairment are as follows:

1. At the self-unloader and gearless bulker fleet levels for the domestic dry-bulk segment.
2. At the fleet level for the product tanker segment, excluding the bunkering vessel.
3. The bunkering vessel.
4. At the fleet level for the ocean shipping segment.
5. Investments in joint ventures.
6. Each individual investment property.
7. Corporate assets.

Goodwill is tested for impairment at the lowest level within the entity at which the goodwill is monitored, being the operating segment level.

The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the property, plant, and equipment is complex and requires the Company to make various estimates including future freight rates, earnings from the vessels, and discount rates. The carrying values of the Company’s property, plant, and equipment may not represent their fair market value at any point in time as market prices of second-hand vessels to a certain degree tend to fluctuate with changes in charter rates and the cost of new vessels; however, if the estimated future cash flow or related assumptions about the future experience change, an impairment of property, plant, and equipment may be indicated.

Market valuations from leading independent and internationally recognized shipbrokers could be part of the review for potential impairment indicators. If an indication of impairment is identified, the need for recognizing an impairment loss is assessed by comparing the carrying value of the long-lived asset to the higher of the fair value less costs to sell and the value-in-use.

Judgement is required in determining the useful lives and residual values of long-lived assets. Depreciation on long-lived assets is based on cost less estimated residual value. Residual value for vessels is estimated as the lightweight tonnage of each vessel multiplied by the scrap value per tonne less any costs expected to be incurred to prepare the vessel for scrapping. The useful lives and residual value of the vessels are reviewed at least each financial year-end.

Provisions

The Company recognizes provisions when it has a present obligation, legal or constructive. The amount recognized is the Company’s best estimate of the consideration required to settle the obligation at the end of a reporting period taking into account the risks and uncertainty related to the obligation.

Fair Value of Purchase Price Allocation

Business acquisitions are recognized initially at cost, which includes purchase price and other costs directly attributable to the purchase and allocated based on fair value which involves estimation. Joint ventures are accounted for using the equity method which reflects the Company's share of the increase or decrease of the post-acquisition earnings and other movements in the joint venture's equity.

Taxation

Income taxes are accrued by applying the annual effective income tax rates for each taxing jurisdiction to the pre-tax earnings in those jurisdictions. Estimates of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire.

The Company is subject to taxation in several jurisdictions. Significant judgement is required in determining the total provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company may maintain provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. The provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each balance sheet date. Where the final tax outcome of these matters differs from the amount provided, it will be recorded in the period in which that final determination arises.

Employee Future Benefits

Management considers a number of factors in developing the pension and non-pension assumptions, including regulatory requirements, an evaluation of relevant discount rates, expected long-term returns on plan assets, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, and input from actuaries and other consultants.

Costs of the program are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

APPLIED

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement. This final version includes requirements on: (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets; and (3) general hedge accounting. Accounting for macro hedging has been decoupled from IFRS 9. The Company has an accounting policy choice to apply the hedge accounting requirements of IFRS 9 or IAS 39. The Company has made the decision to continue applying the IAS 39 hedge accounting requirements at this time and will comply with the revised hedge accounting disclosures as required by the related amendments to IFRS 7, Financial Instruments: Disclosures.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied. The Company has made the decision not to restate comparative period financial information and will recognize any measurement difference between the previous carrying amount and the new carrying amount as of the date of adoption, through an adjustment to opening retained earnings.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on an entity's business model and the nature of the cash flows of the assets. These categories replace the existing IAS 39 classifications of available-for-sale ("AFS"), loans and receivables, and held-to-maturity. Investments in equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 did not result in differences in the measurement bases of financial assets when compared to that utilized under IAS 39.

For financial liabilities, IFRS 9 includes the pre-existing requirements for classification and measurement previously included in IAS 39.

The following table illustrates the financial instrument classification under IAS 39 compared to the new classification and measurement categories under IFRS 9.

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash	Loans & Receivables	Amortized cost
Accounts Receivable	Loans & Receivables	Amortized cost
Contract Cancellation Receivable	Loans & Receivables	Amortized cost
Loans Receivable from Joint Venture	Loans & Receivables	Amortized cost
Accounts Payable and Accrued Charges	Other financial liabilities	Amortized cost
Derivative Assets	FVTPL	FVTPL
Derivative Liabilities	FVTPL	FVTPL
Dividends Payable	Other financial liabilities	Amortized cost
Long-Term Debt	Other financial liabilities	Amortized cost

As noted above, these new categories under IFRS 9 do not change the basis on which financial assets and liabilities are being measured by the Company.

Impairment

IFRS 9 introduces an expected credit loss impairment model to replace the incurred loss model under IAS 39 and is generally expected to result in earlier recognition of credit losses. Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The Company has assessed the new requirement and concluded the effect of the change was immaterial, as the Company anticipates very limited actual incurred losses on receivables, if any at all.

Revenue Recognition

In May 2014, the IASB issued the final version of IFRS 15, Revenue from Contracts with Customers, which replaces the detailed guidance on existing revenue recognition requirements and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognize revenue with the core principle being that entities should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The Principles in IFRS 15 must be applied using the following 5-step model:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the standard does not prohibit an entity from using alternative descriptions in the balance sheet. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company has elected to use the modified retrospective approach in accordance with paragraph C3(b) of IFRS 15 in transition to the standard, however, apart from providing more extensive disclosures of the Company’s revenue transactions, the application of IFRS 15 has not had a material impact on the financial position and/or financial performance of the Company.

6. NEW ACCOUNTING STANDARDS NOT YET APPLIED

Leases

IFRS 16, Leases, which was issued in January 2016, replaces IAS 17, Leases. Lessees are required to recognize a right-of-use asset and a lease liability for most leases on the balance sheet regardless of the former classification under IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
Right-of-use assets and lease liabilities will be amortized and accreted with a different pattern of expense being recognized in the statement of earnings. Under the new standard, enhanced disclosures are expected to give users of financial statements a basis to assess the effects of leases.

IFRS 16 will be effective for the Company's fiscal year beginning on January 1, 2019, and the Company chose to use the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17. In addition, the Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company is continuing to evaluate the impact of the adoption of IFRS 16 on the consolidated financial statements.

7. REVISIONS TO PRIOR PERIOD COMPARATIVES

In the second quarter of 2018, the Company identified an immaterial error relating to the fair value measurement of a foreign exchange forward contract recorded as of December 31, 2017 and March 31, 2018, resulting in a reduction of 2017 previously reported net earnings of $2,605, and a reduction of previously reported net loss for the three months ended March 31, 2018 of $1,689. This immaterial error has been retrospectively adjusted in the balance sheet and statement of earnings as described below.

The impact on the comparative consolidated statements of earnings is outlined in the table below. The resulting overstatement of derivative liabilities of $3,003 and understatement of income taxes payable of $398 as at December 31, 2017 has been adjusted in the comparative consolidated balance sheets. The impact to the consolidated balance sheet previously reported as at March 31, 2018 was an overstatement of derivative liabilities of $1,056 and an understatement of income taxes payable of $140. There has been no change to the previously reported cash flows from operating, investing, and financing activities in the comparative consolidated statements of cash flow for any period and there was no impact to any other prior periods.

For the year ended December 31 (in thousands of dollars, except per share data)		2017
Impact on Net Earnings		
Net earnings as previously reported	$	56,195
Adjustment to unrealized gain on foreign currency		3,003
Adjustment to income tax expense		(398)
Adjustment to net earnings		2,605
Adjusted net earnings	$	58,800
Impact on Earnings per Share		
Basic weighted average number of shares outstanding		38,883,615
Impact of diluted securities		
Convertible unsecured subordinated debentures		4,514,862
Net earnings per share as previously reported:		
Basic	$	1.44
Diluted		1.32
Impact of adjustment to net earnings per share:		
Basic	$	0.07
Diluted		0.06
Adjusted net earnings per share:		
Basic	$	1.51
Diluted		1.38

8. REVENUE

Disaggregation of Revenue

The Company derives its revenue from the transfer of services over time in the following major business segments. This is consistent with the total revenue that is disclosed for each reportable segment under IFRS 8.

Twelve Months Ended December 31, 2018	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Investment Properties	Corporate	Total
(in thousand of dollars)						
Contract of Affreightment	$ 282,935	$ 2,084	$ —	$ —	$ —	$ 285,019
Time Charter	12,498	104,187	—	—	—	116,685
Pool Revenue Share	—	—	90,277	—	—	90,277
Other	2,229	—	—	11,113	2,878	16,220
	$ 297,662	**$ 106,271**	**$ 90,277**	**$ 11,113**	**$ 2,878**	**$ 508,201**

All segment revenue is recognized over time.

Twelve Months Ended December 31, 2017		Domestic Dry-Bulk		Product Tankers		Ocean Self-Unloaders		Investment Properties		Corporate		Total
(in thousand of dollars)												
Contract of Affreightment	$	264,383	$	1,277	$	—	$	—	$	—	$	265,660
Time Charter		12,195		84,997		—		—		—		97,192
Pool Revenue Share		—		—		74,912		—		—		74,912
Other		1,687		—		—		11,599		1,897		15,183
	$	278,265	$	86,274	$	74,912	$	11,599	$	1,897	$	452,947

All segment revenue is recognized over time.

Contract modifications

The Company's contracts are amended occasionally for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue in one of the following ways:

a. prospectively as an additional separate contract;
b. prospectively as a termination of the existing contract and creation of a new contract;
c. as part of the original contract using a cumulative catch up; or
d. as a combination of b) and c).

Contracts for which the Company has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognized over time, the modification will always be treated under either a) or b). Option d) may arise when a contract has a partial termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognized may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly any variable consideration is only recognized to the extent that it is highly probably that no revenue reversal will occur.

Principal versus agent

The Company has arrangements with some of its customers whereby it is required to determine if it acts as a principal or an agent as more than one party is involved in providing the services to the customer. The Company acts as a principal if it controls a promised service before transferring that good or service to the customer. The Company is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service.

This assessment of control requires judgement in particular in relation to certain service contracts. The Company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Company is acting as a principal, revenue is recorded on a gross basis. Where the Company is acting as an agent, revenue is recorded at a net amount reflecting the margin earned. In the Company's pooling agreements the difference between these amounts is typically the fuel and voyage costs incurred to fulfill the contract obligation.

Contract related assets and liabilities

As a result of the contracts which the Company enters into with its customers, a number of different assets and liabilities are recognized on the Company's balance sheet. These may include but are not limited to:

- Property, plant and equipment
- Contract fulfilment assets

- Contract assets
- Trade receivables
- Accrued income
- Deferred income

Initial recognition of contract fulfilment assets

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If those other standards preclude capitalization of a particular cost, then an asset is not recognized under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of these criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

Under certain circumstance, the Company may incur costs to deliver its voyage or charter service in a more efficient way. The most common type of cost is vessel modification for specific needs in contracts with customers.

Treatment of contract fulfilment assets and capitalized costs to obtain a contract

The Company amortizes contract fulfilment assets and capitalized costs to obtain a contract to operations or selling expense over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

A contract fulfilment asset or capitalized costs to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Management is required to determine the recoverability of all contract related assets. At each reporting date, the Company determines whether or not the contract related assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific key performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Contract assets and liabilities

The Company's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided.

These payment schedules may include performance-based payments or progress payments as well as regular monthly payments for ongoing service delivery. Payments for transactional goods and services may be at the voyage start date, or at the beginning of each month for Time Charters. Where payments made are greater than the revenue recognized at the period end date, the Company recognizes a deferred income contract liability for this difference.

Where payments made are less than the revenue recognized at the period end date, the Company recognizes a contract asset for this difference. The contract asset represents the balance due from customers.

As at December 31 (in thousands of dollars)	**2018**	2017
Contract assets		
Unbilled revenue	**$ 4,475**	$ 7,041

The Company's contract liabilities balances solely relate to revenue from contracts with customers. Movements in the contract liabilities balances were driven by transactions entered into by the Company within the normal course of business in this quarter.

As at December 31 (in thousands of dollars)	**2018**	2017
Contract liabilities		
Current	**$ 1,045**	$ 147
Non-current	**$ —**	$ —

9. JOINT VENTURES

The Company has a 50% interest in Marbulk Canada Inc., ("Marbulk") which owns and operates ocean-going vessels and participates in an international commercial arrangement, a 50% interest in NovaAlgoma Cement Carriers Limited, ("NACC") which owns and operates pneumatic cement carriers to support infrastructure projects worldwide, and a 50% interest in NovaAlgoma Short-Sea Holdings Ltd., ("NASH") which owns and manages short sea dry-bulk vessels in global markets.

During the year, the Company created a new joint arrangement in its Global Short Sea segment with a 50% ownership in NovaAlgoma Bulk Holdings Ltd ("NABH"), a joint venture created with Nova Marine Carriers. This joint venture owns and operates a small fleet of deep sea vessels.

Business acquisition

On April 18, 2017, the Company entered into a new business venture with Nova Marine Holdings SA ("Nova") of Lugano, Switzerland to create a global fleet focused on short-sea dry-bulk shipping. The Company, through a foreign subsidiary, owns 50% of the short-sea shipping business, which operates under the name NovaAlgoma Short-Sea Carriers ("NASC").

Under the terms of the agreement, Nova transferred all short-sea commercial contracts to NASC, then transferred its interest in NASC along with its interests in any dry-bulk vessels of less than 15,000 dwt to a newly formed entity, NovaAlgoma Short-Sea Holding Limited ("NASH"). The Company acquired a 50% interest in NASH from Nova for a total consideration of U.S. $28,721 and will account for it using the equity method. This transaction was accounted for as a business combination.

The investment in NASH comprises the NASC commercial platform, its book of business and an interest in a fleet of 15 short-sea mini bulkers ranging in size from 5,750 dwt to 14,700 dwt. Six of these vessels are wholly owned by NASH and the remaining nine vessels are 50% owned. NASC is also engaged in the management of short-sea vessels on behalf of other owners and actively charters vessels to meet the commercial needs of the business. At the time of the Company's acquisition, NASC managed a fleet of 57 short-sea vessels on behalf of other owners.
The allocation of the initial cash consideration of $38,420 (U.S. $28,721) for accounting purposes is as follows:

Cash	$	305
Other current assets		2,204
Property, plant, and equipment		20,132
Investment in joint ventures		12,536
Accounts payable and accrued charges		(1,825)
Long term debt		(9,631)
Total identifiable assets		23,721
Identifiable intangible assets		5,083
Goodwill		9,616
Total cash consideration paid	$	38,420

The goodwill recognized is attributable to the commercial platform and assembled workforce already in place at the time of acquisition. The customer list comprises the value of the identifiable intangible assets and is depreciable over a ten year period.

Operating results of the Company's joint ventures are as follows:

For the years ended December 31 (in thousands of dollars)	**2018**		2017	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Revenue	**$ 10,731**	**$ 277,013**	$ 15,636	$ 222,794
Operating expenses	**(4,744)**	**(223,209)**	(11,460)	(196,314)
General and administrative	**(627)**	**(7,897)**	(556)	(6,784)
Depreciation and amortization	**(3,710)**	**(20,330)**	(3,940)	(9,616)
Interest expense	**(1,411)**	**(8,435)**	(1,416)	(3,450)
Foreign exchange gain (loss)	**2,420**	**(262)**	(2,038)	217
Other (expenses) income	**(698)**	**161**	—	—
Earnings before undernoted	**1,961**	**17,041**	(3,774)	6,847
Net earnings of joint ventures	**—**	**1,492**	—	1,203
Net earnings attributable to non-controlling interest	**—**	**(1,115)**	—	—
Income tax (expense) recovery	**(528)**	**(530)**	366	(585)
Net earnings (loss)	**$ 1,433**	**$ 16,888**	$ (3,408)	$ 7,465
Company share of net earnings (loss)	**$ 717**	**$ 8,444**	$ (1,704)	$ 3,733
Amortization of vessel purchase price allocation and intangibles	**—**	**(638)**	—	(259)
Company share included in net earnings of joint ventures	**$ 717**	**$ 7,806**	$ (1,704)	$ 3,474

The Company's total share of net earnings (loss) of the jointly controlled operations by segment are as follows:

For the years ended December 31 (in thousands of dollars)	**2018**	2017
Ocean Self-Unloaders	**$ 717**	$ (1,704)
Global Short Sea Shipping	**7,806**	3,474
	$ 8,523	$ 1,770

The assets and liabilities of the joint ventures by segment are as follows:

As at December 31 (in thousands of dollars)	**2018**		2017	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Cash	**$ 6,472**	**$ 18,171**	$ 3,730	$ 10,187
Other current assets	**1,518**	**53,524**	1,722	38,053
Income taxes recoverable	**52**	**25**	592	22
Property, plant, and equipment	**32,666**	**439,741**	33,640	237,215
Investment in joint ventures	**—**	**17,974**	—	3,608
Intangible assets	**624**	**61**	924	—
Other assets	**—**	**18,046**	30	35,255
Current liabilities	**(2,410)**	**(57,851)**	(1,136)	(56,895)
Due to owners	**(30,588)**	**—**	(28,488)	—
Long-term debt	**—**	**(226,061)**	—	(115,135)
Other long-term liabilities	**—**	**(11,141)**	—	(909)
Deferred income taxes	**—**	**(598)**	—	(880)
Non-controlling interest	**—**	**(2,345)**	—	—
Net assets of jointly controlled operations	**$ 8,334**	**$ 249,546**	$ 11,014	$ 150,521
Company share of net assets	**$ 4,167**	**$ 124,773**	$ 5,507	$ 75,261
Goodwill and other purchase price adjustments	**—**	**24,349**	—	23,164
Company share of joint venture	**$ 4,167**	**$ 149,122**	$ 5,507	$ 98,425

The Company's net investment in the jointly controlled operations by segment are as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Ocean Self-Unloaders	**$ 4,167**	$ 5,507
Global Short Sea Shipping	**149,122**	98,425
	$ 153,289	$ 103,932

The Company's cash flows from joint ventures by segment are as follows:

For the years ended December 31 (in thousands of dollars)	**2018**		2017	
	Distributions received	**Investment in joint ventures**	Distributions received	Investment in joint ventures
Ocean Self-Unloaders	**$ 2,512**	**$ (5)**	$ 3,096	$ —
Global Short Sea Shipping	**24,033**	**(56,214)**	—	(36,369)
	$ 26,545	**$ (56,219)**	$ 3,096	$ (36,369)

The Company has related party relationships with its joint ventures with respect to management services, technical management services, vessel operations, and a loan receivable. Amounts relating to transactions with joint ventures are as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Accounts receivable	**$ 6,408**	$ 1,876
Loan and interest receivable	**14,953**	14,244
Accounts payable and accruals	**450**	1,387
Revenue	**4,814**	6,406
Operating expenses	**2,496**	5,237
Selling, general and administrative	**312**	735

10. CANCELLATION OF SHIPBUILDING CONTRACTS

On September 28, 2018 and October 12, 2018, the Company sent Notices of Rescission to Uljanik d.d to cancel shipbuilding contracts for the construction of four Equinox self-unloaders. All construction instalments made by the Company were requested to be refunded with interest.

In December 2018, the Company received the refund for one contract cancellation in the amount of $48,796. A contract cancellation receivable of $68,040 was outstanding at December 31, 2018 for the remaining three construction contracts. Subsequent to year end, the Company was refunded $44,152 USD and €5,066, representing all amounts owing from the shipyard.

At the time the Notices of Rescission were sent, the Company had capitalized $112,062 of costs and recognized an impairment loss of $6,864 relating to the assets under construction in plant, property, and equipment.

The cancellation of the shipbuilding contracts impacted the following components of the financial statements in the year:

For the year ended December 31 (in thousands of dollars)	2018
Impairment reversal (Note 16)	$ 6,864
Interest income on instalments	12,709
Write-off of supervision and other direct costs	(1,217)
Write-off of capitalized interest relating to ship construction (Note 11)	(12,879)
Foreign exchange gain (Note 12)	6,168
Gain on cancellation of shipbuilding contract	11,645
Income tax expense	(1,431)
	$ 10,214

11. INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Interest expense on borrowings	**$ 17,762**	$ 16,787
Amortization of financing costs	**1,109**	1,671
Interest on employee future benefits, net	**319**	270
Interest capitalized on vessels under construction	**(6,570)**	(13,885)
Reversal of interest previously capitalized on cancelled shipbuilding contracts (Note 10)	**12,879**	—
	$ 25,499	$ 4,843

12. FOREIGN CURRENCY GAIN

The components of net gain on foreign currency are as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Gains on foreign denominated cash	**$ 1,959**	$ 2,008
Gain on return of capital from foreign subsidiary	**254**	252
Foreign exchange gain on vessel construction instalments (Note 10)	**6,168**	—
Unrealized gain on foreign currency	**1,209**	3,686
	$ 9,590	$ 5,946

See Note 26 for the Company's hedge accounting policies relating to foreign currency translation gains and losses on long-term debt and U.S. cash.

13. INCOME TAXES

The components of the income tax (expense) recovery are as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
		(Note 7)
Current tax recovery (expense)	**$ 1,554**	$ (7,643)
Deferred tax (expense) recovery	**(10,104)**	(5,881)
	$ (8,550)	$ (13,524)

A reconciliation comparing income taxes calculated at the Canadian statutory rate to the amount provided in the consolidated financial statements is as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Combined federal and provincial statutory income tax rate	**26.5%**	26.5%
Earnings before income tax from continuing operations and net earnings of joint ventures	**$ 50,970**	$ 46,726
Expected income tax (expense) recovery	**$ (13,507)**	$ (12,382)
(Increase) decrease in expense resulting from:		
Effect of items that are not (deductible) taxable	**2,440**	(2,009)
Foreign tax rates different from Canadian statutory rate	**3,189**	4,244
Non-recoverable withholding taxes	**—**	(990)
Effect of transferring international assets into domestic operations	**—**	(2,364)
Reclassification from discontinued operations	**—**	887
Adjustments to prior period provision	**(537)**	(1,487)
Other	**(135)**	577
	$ (8,550)	$ (13,524)

Current and deferred income tax expense recognized in other comprehensive earnings is as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Unrealized gains on hedging instruments	**$ 2,692**	$ 1,281
Actuarial (losses) gains on employee future benefits	**(2,702)**	(663)
	$ (10)	$ 618

An analysis of the net deferred income tax liability is as follows:

As at December 31, 2018	Opening balance	Transferred from Discontinued Operations	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
(in thousands of dollars)					
Deferred tax liabilities (assets)					
Property, plant, and equipment	$ 42,920	$ —	$ 8,529	$ —	$ 51,449
Employee future benefits	(2,966)	—	74	(2,702)	(5,594)
Foreign exchange differences	(3,594)	—	1,188	2,692	286
Convertible debentures	837	—	(108)	—	729
Tax allowances, provisions and other	1,441	(302)	421	—	1,560
	$ 38,638	**$ (302)**	**$ 10,104**	**$ (10)**	**$ 48,430**

As at December 31, 2017	Opening balance	Transferred from Discontinued Operations	Recognized in equity	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
(in thousands of dollars)						
Deferred tax liabilities (assets)						
Property, plant, and equipment	$ 34,427	$ 4,325	$ —	$ 4,168	$ —	$ 42,920
Employee future benefits	(2,344)	—	—	41	(663)	(2,966)
Foreign exchange differences	(4,763)	—	—	(112)	1,281	(3,594)
Losses for tax purposes	(5,937)	—	—	5,937	—	—
Convertible debentures	375	—	893	(431)	—	837
Tax allowances, provisions and other	3,677	—	—	(2,236)	—	1,441
	$ 25,435	$ 4,325	$ 893	$ 7,367	$ 618	$ 38,638

14. ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Due from customers	**$ 60,077**	$ 50,675
Contract assets	**4,475**	7,041
Government related	**5,246**	6,345
Other	**2,916**	123
	$ 72,714	$ 64,184

15. OTHER CURRENT ASSETS

The components of other current assets are as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Materials and supplies	**$ 8,187**	$ 9,218
Prepaid expenses	**4,401**	3,709
Loan interest receivable	**709**	—
Derivative asset	**1,571**	71
Contract cancellation receivable (Note 10)	**68,040**	—
	$ 82,908	$ 12,998

16. PROPERTY, PLANT, AND EQUIPMENT

Details of property, plant, and equipment are as follows:

Cost	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Total
(in thousands of dollars)					
Balance at January 1, 2017	$ —	$ 773,282	$ 192,977	$ 215,870	$ 1,182,129
Transfers	8,024	(37,423)	—	37,046	7,647
Additions	89	153,779	749	2,903	157,520
Disposals	—	(80,964)	—	—	(80,964)
Fully depreciated assets no longer in use and other	—	13,636	(168)	(1,875)	11,593
Effect of foreign currency exchange differences	—	3,857	—	(17,256)	(13,399)
Balance at December 31, 2017	$ 8,113	$ 826,167	$ 193,558	$ 236,688	$ 1,264,526
Transfers	9,338	(9,338)	—	—	—
Additions	265	43,673	26,995	7,259	78,192
Disposals	—	(123,775)	—	—	(123,775)
Fully depreciated assets no longer in use	—	(1,247)	(2,956)	(4,548)	(8,751)
Cancellation of shipbuilding contract (Note 10)	—	(112,062)	—	—	(112,062)
Adjustment to presentation of previously recognized impairment	—	3,966	—	—	3,966
Reversal of impairment (Note 10)	—	6,864	—	—	6,864
Effect of foreign currency exchange differences	—	—	—	21,308	21,308
Balance at December 31, 2018	**$ 17,716**	**$ 634,248**	**$ 217,597**	**$ 260,707**	**$ 1,130,268**

Accumulated depreciation	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Total
(in thousands of dollars)					
Balance at January 1, 2017	$ —	$ 375,479	$ 91,154	$ 55,245	$ 521,878
Transfers	2,696	(4,988)	—	4,884	2,592
Depreciation expense	663	19,490	9,614	13,781	43,548
Disposals	—	(80,964)	—	—	(80,964)
Fully depreciated assets no longer in use	—	13,636	(167)	(1,875)	11,594
Effect of foreign currency exchange differences	—	478	—	(4,445)	(3,967)
Balance at December 31, 2017	$ 3,359	$ 323,131	$ 100,601	$ 67,590	$ 494,681
Transfers	6,525	(6,525)	—	—	—
Depreciation expense	972	22,692	9,867	16,018	49,549
Disposals	—	(122,786)	—	—	(122,786)
Fully depreciated assets no longer in use	—	(1,247)	(2,956)	(4,548)	(8,751)
Adjustment to presentation of previously recognized impairment	—	3,966	—	—	3,966
Effect of foreign currency exchange differences	—	—	—	6,823	6,823
Balance at December 31, 2018	**$ 10,856**	**$ 219,231**	**$ 107,512**	**$ 85,883**	**$ 423,482**

Net Book Value	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Total
(in thousands of dollars)					
December 31, 2017					
Cost	$ 8,113	$ 826,167	$ 193,558	$ 236,688	$ 1,264,526
Accumulated depreciation	3,359	323,131	100,601	67,590	494,681
	$ 4,754	$ 503,036	$ 92,957	$ 169,098	$ 769,845
December 31, 2018					
Cost	$ 17,716	$ 634,248	$ 217,597	$ 260,707	$ 1,130,268
Accumulated depreciation	10,856	219,231	107,512	85,883	423,482
	$ 6,860	**$ 415,017**	**$ 110,085**	**$ 174,824**	**$ 706,786**

Net book value at December 31, 2018 includes capitalized dry-docking costs of $43,248 (2017 - $37,189) and related accumulated depreciation of $19,555 (2017 - $25,926).

Depreciable assets at December 31, 2018 includes progress payments on one Equinox Class vessel totalling $22,636 (2017 - $128,104). The Company capitalized $6,570 of interest in 2018 (2017 - $13,885) related to vessels under construction. The interest rate used for the capitalization of interest is based on the Company's effective rate on long-term debt of 5.98% (2017 - 6.34%). During the year, $12,879 of interest previously capitalized for vessels under construction was reversed upon cancellation of the related vessel contracts (Note 10).

Reversal of Impairment losses

During the fourth quarter of 2016, the Company completed a review of events and circumstances to determine if the carrying amounts of long-lived assets with finite useful lives may be more than their recoverable amounts. The review was based on the multi-year financial and fleet maintenance plan completed during the fourth quarter and future industry growth and rate assumptions for a period covering the useful life of each vessel in the fleet.

As a result of the 2016 review, the Company determined that the carrying values of the domestic dry-bulk fleet and the tanker fleet were impaired. The Company recognized impairment losses for the domestic dry bulk fleet totalling $37,441, of which $17,845 related to domestic dry-bulk vessels under construction and $19,596 related to operating domestic dry-bulk vessels.

Four of the vessels under construction were cancelled in 2018 (Note 10) and the associated impairment loss of $6,864 previously recognized for these vessels was reversed.

17. INVESTMENT PROPERTIES

The Company owns a shopping centre and apartment building located in Sault Ste. Marie, Ontario. The Company decided in June 2017 to suspend on-going discussions regarding the sale of the shopping centre and adjacent apartment building until the uncertainty created by the Sears Canada closure is resolved. These properties were reclassified from discontinued operations into continuing operations as Investment Properties in 2017. In accordance with IFRS 5, the historical operating results of these properties were reclassified to continuing operations on a retroactive basis. In addition to the retroactive reclassification, depreciation in the amount of $2,800 that had not been recorded since classification as an asset held for sale was recorded in the second quarter of 2017 as though the asset had not been originally classified as held for sale.

Details of the investment properties are as follows:

(in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Balance at January 1, 2017	$ —	$ —	$ —
Transfer from Discontinued Operations, June 26, 2017	57,677	30,940	26,737
Additions	213	4,991	(4,778)
Balance at December 31, 2017	57,890	35,931	21,959
Additions	289	2,783	(2,494)
Fully depreciated assets no longer in use	(346)	(346)	—
Balance at December 31, 2018	**$ 57,833**	**$ 38,368**	**$ 19,465**

18. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(in thousands of dollars)	Goodwill	Intangible Assets	Total
Balance at January 1, 2017	$ 7,910	$ 3,681	$ 11,591
Additions	—	7,794	7,794
Amortization	—	(3,086)	(3,086)
Effect of foreign currency exchange differences	—	(468)	(468)
Balance at December 31, 2017	$ 7,910	$ 7,921	$ 15,831
Additions	—	2,414	2,414
Amortization	—	(3,186)	(3,186)
Effect of foreign currency exchange differences	—	594	594
Balance at December 31, 2018	**$ 7,910**	**$ 7,743**	**$ 15,653**

Goodwill

As part of a business acquisition in 2011, the Company recognized goodwill of $7,910 on the allocation of the purchase price, determined as the excess over the fair values of the net tangible and identifiable intangible assets acquired.

Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill is tested for impairment using the fair value less cost to dispose model at the operating segment level. The operating segment level is the lowest level within the entity at which the goodwill is monitored.

An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition.

No impairment was determined to exist as a result of the reviews performed as at December 31, 2018 and 2017.

Intangible Assets

The Company owns vessels that participate in a self-unloader ocean-going Pool with unrelated parties. In April 2016, January 2017 and December 2018, other Pool members withdrew certain vessels due to market overcapacity. These vessel owners were compensated for their loss of future earnings resulting from the withdrawal of the vessels. The Company's interest in the Pool increased as a result and its value, which initially was equal to the Company's share of the compensation payable to the other owners, has been recorded as an intangible asset and is being amortized over two to four years.

The intangible assets were assessed for annual impairment as at December 31, 2018 and 2017, and no impairment was determined to exist.

19. OTHER ASSETS

Other assets consist of the following:

As at December 31 (in thousands of dollars)	2018	2017
Loan receivable from joint venture, interest at 4.98%	**$ 14,244**	$ 14,244
Other	**17**	12
	$ 14,261	$ 14,256

20. ACCOUNTS PAYABLE AND ACCRUED CHARGES

The components of accounts payable and accrued charges are as follows:

As at December 31 (in thousands of dollars)	2018	2017
Due to suppliers and accrued charges	**$ 60,607**	$ 61,404
Accrued interest on long-term debt	**4,251**	4,259
Commodity taxes payable	**1,985**	3,956
Other	**189**	3
	$ 67,032	$ 69,622

21. OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

As at December 31 (in thousands of dollars)	2018	2017
		(Note 7)
Dividends payable	**$ 668**	$ 565
Derivative liabilities	**—**	5,118
Compensation payable to Pool members (Note 22)	**128**	165
	$ 796	$ 5,848

22. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

As at December 31 (in thousands of dollars)	2018	2017
Compensation payable to Pool members	**$ 3,424**	$ 5,090
Less: current portion (Note 21)	**128**	165
	$ 3,296	$ 4,925

A portion of the compensation paid to other Pool members for the retirement of five vessels is payable in annual instalments in future years and has been recorded as an Other Long-Term Liability. The Company's share of the liability related to this compensation is payable in equal annual instalments that commenced April 1, 2017 over a period of two to four years.

23. EMPLOYEE FUTURE BENEFITS

Plan Descriptions

The Company maintains two funded and one unfunded defined benefit pension plans and two defined contribution pension plans, which together cover all of its non-union employees and certain unionized employees. The majority of shipboard employees belong to pension plans not maintained by the Company.

The defined benefit plans provide retirement income based on length of service and final average earnings or an amount per month for each year of credited service. The Company also provides other unfunded post-retirement benefits including life insurance and health care to certain employees.

The plans typically expose the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. The Company is not aware of any specific concentrations of risk to which it is exposed.

The Company measures its accrued benefit obligations and the fair value of the plan assets for accounting purposes at December 31 of each year.

The most recent actuarial valuations of the obligations for the two defined benefit plans for funding purposes were as of January 1, 2018. The next required valuations for the defined benefit plans will be as of January 1, 2021 for The Union Employee Pension Plan for Algoma Ship Repair and January 1, 2019 for the Employee Pension Plan of Algoma Central Corporation.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit assets and obligations are as follows:

	Pension Plans		Other Benefit Plans	
	2018	2017	**2018**	2017
Discount rate used for estimating accrued benefit obligation	**4.0%**	3.5%	**4.0%**	3.5%
Discount rate used for estimating net interest cost included in net benefit cost incurred	**3.5%**	3.9%	**3.5%**	3.9%
Rate of compensation increases	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter
Mortality assumption	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B

The discount rate assumption is selected with reference to market interest rates on high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.

The Company's growth rate of health care costs was estimated at 5.3% (2017 – 5.6%), with the rate trending to 4.5% per annum to 2033. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would change the accrued benefit obligation by $489 and $(687) respectively.

The accumulated actuarial losses, net of income tax, recognized in other comprehensive earnings are as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Opening balance	**$ (9,662)**	$ (7,839)
Losses recognized during year, net of income tax	**(7,475)**	(1,823)
	$ (17,137)	$ (9,662)

The components of the actuarial (losses) gains recognized in other comprehensive loss during the year are as follows:

For the years ended December 31 (in thousands of dollars)	**2018**	2017
Return on plan assets	**$ (14,891)**	$ 6,422
Actuarial losses arising from changes in demographic assumptions	**(1,032)**	(410)
Actuarial gains (losses) arising from changes in financial assumptions	**10,948**	(8,057)
Actuarial (losses) gains arising from experience adjustments	**(668)**	647
Adjustments for restrictions on the defined benefit asset	**(4,527)**	(1,082)
	(10,170)	(2,480)
Income tax recovery	**(2,695)**	(657)
	$ (7,475)	$ (1,823)

Information, in aggregate, regarding the Company's net liability arising from employee future benefits for the years 2018 and 2017 is presented below.

As at December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Effect of asset ceiling at beginning of year	$ 1,082	$ —	$ 1,082
Interest on the effect of the asset ceiling	38	—	38
Other changes in effect of asset ceiling	4,527	—	4,527
Effect of asset ceiling at end of year	**$ 5,647**	**$ —**	**$ 5,647**

As at December 31, 2017 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Effect of asset ceiling at beginning of year	$ —	$ —	$ —
Interest on the effect of the asset ceiling	—	—	—
Other changes in effect of asset ceiling	1,082	—	1,082
Effect of asset ceiling at end of year	$ 1,082	$ —	$ 1,082

Information, in aggregate, regarding the Company's reconciliation of net liability arising from employee future benefits for the years 2018 and 2017 is presented below.

As at December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 155,655	$ 11,370	$ 167,025
Effect of asset ceiling	5,647	—	5,647
Less: fair value of plan assets	151,386	—	151,386
Net liability	**$ 9,916**	**$ 11,370**	**$ 21,286**

As at December 31, 2017 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 165,494	$ 10,844	$ 176,338
Effect of asset ceiling	1,082	—	1,082
Less: fair value of plan assets	165,945	—	165,945
Net liability	$ 631	$ 10,844	$ 11,475

As at January 1, 2017 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 158,447	$ 10,467	$ 168,914
Effect of asset ceiling	—	—	—
Less: fair value of plan assets	159,475	—	159,475
Net liability (asset)	$ (1,028)	$ 10,467	$ 9,439

The presentation on the consolidated financial statements of the net liability is as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Employee future benefit liabilities	**$ 23,853**	$ 23,960
Employee future benefit assets	**2,452**	12,485
Net liability	**$ 21,401**	$ 11,475

Asset Ceiling under IAS 19 as Clarified by IFRIC 14

The Company has reflected Ruling 14 of the International Financial Reporting Interpretations ("IFRIC 14") which clarifies how the asset ceiling defined under IAS 19 should be applied, particularly how it interacts with minimum funding rules. Under the revised IAS19, any variation in the asset ceiling will be recognized in other comprehensive income (as opposed to profit and loss). The impact of the asset limit on the funded plans has been applied based on management's interpretation of IAS19, as clarified by IFRIC 14. This interpretation is summarized as follows:

- The asset limit is not applicable for the unfunded plans;
- Each of the funded plans has been considered separately in determining the asset limit;
- For each of the registered plans, the Company assumed that it does not have an unconditional right to a refund of surplus;
- The Company may take defined benefit funding contribution holidays based on past practice and/or plan rules;
- For each of the registered plans, the economic benefit available from a reduction in future contributions was calculated with the following considerations:

    Minimum Funding Requirements ("MFR") have been set based on the requirements of the most recently filed actuarial valuation report for funding purposes. Based on the MFR, the going concern and solvency funded status is projected into the future. In any year where the plan is projected to be in a surplus on both a going concern and solvency basis and the threshold set by the governing pension legislation for taking a contribution holiday is met, then this projected surplus is used to reduce or eliminate the minimum funding contribution in that year, including future Employer contributions to the Defined Contribution provision of the plans. The economic benefit available from a reduction in future contributions is therefore equal to the difference between the present value of employer IAS 19 current service cost and the present value of the employer minimum funding current service requirements, including future Employer contributions to the Defined Contribution provision of the plans. The present values are determined using the IAS 19 discount rate and have been calculated assuming that the defined benefit provisions of The Employee Pension Plan of Algoma Central Corporation and The Union Employee Pension Plan for Algoma Ship Repair Plan are closed to new hires and the remaining plans are maintained indefinitely.

- Any required deficit contributions that, once made, are not available to the Company as an economic benefit may form an additional liability which is netted against the balance sheet asset, or if there is already a balance sheet liability, the adjusted balance sheet liability is equal to the present value of the remaining required deficit contributions. The required deficit contributions were determined based on the most recently filed actuarial valuation report for funding purposes.

The movements in the present value of the fair value of the plan assets and defined benefit obligations is as follows:

As at December 31, 2018 (in thousands of dollars)

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 165,945	$ —	$ 165,945
Expected return on plan assets	5,714	—	5,714
Return on plan assets in excess of expected return	(14,891)	—	(14,891)
Benefits paid	(8,822)	(641)	(9,463)
Employer contributions to plans	2,843	492	3,335
Employee contributions to plans	597	—	597
Other	—	149	149
Fair value, end of year	**$ 151,386**	**$ —**	**$ 151,386**

Employee Future Benefit Obligations	Pension Plans	Other Benefit Plans	Total
Obligations, beginning of year	$ 165,494	$ 10,844	$ 176,338
Employer current service cost	2,321	158	2,479
Employee current service cost	597	—	597
Past service costs that have vested	—	—	—
Interest cost	5,626	369	5,995
Benefits paid	(8,822)	(641)	(9,463)
Retiree contributions	—	149	149
Actuarial gains	(9,307)	(609)	(9,916)
Other	(432)	1,100	668
Obligations, end of year	**$ 155,477**	**$ 11,370**	**$ 166,847**

As at December 31, 2017 (in thousands of dollars)

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 159,475	$ —	$ 159,475
Expected return on plan assets	6,101	—	6,101
Return on plan assets in excess of expected return	6,422	—	6,422
Benefits paid	(9,730)	(655)	(10,385)
Employer contributions to plans	3,010	514	3,524
Employee contributions to plans	667	—	667
Other	—	141	141
Fair value, end of year	$ 165,945	$ —	$ 165,945

Employee Future Benefit Obligations	Pension Plans	Other Benefit Plans	Total
Obligations, beginning of year	$ 158,631	$ 10,467	$ 169,098
Employer current service cost	2,411	143	2,554
Employee current service cost	667	—	667
Past service costs that have vested	435	—	435
Interest cost	5,975	396	6,371
Benefits paid	(9,730)	(655)	(10,385)
Retiree contributions	—	141	141
Actuarial gains	7,468	374	7,842
Other	(363)	(22)	(385)
Obligations, end of year	$ 165,494	$ 10,844	$ 176,338

The surplus position of the defined benefit pension plans consists of the following:

As at December 31 (in thousands of dollars)	2018	2017
The Employee Pension Plan of Algoma Central Corporation	**$ 2,452**	$ 12,485
The Union Employee Pension Plan of Algoma Ship Repair	**—**	—
	$ 2,452	$ 12,485

The deficit of the employee future benefit plans consists of the following:

As at December 31 (in thousands of dollars)	2018	2017
Supplementary Employee Retirement Plan	**$ 12,368**	$ 13,294
Other benefit plans	**11,485**	10,666
	$ 23,853	$ 23,960

The Company's net expense for the employee future benefit plans is as follows:

For the year ended December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,321	$ 158	$ 2,479
Interest cost on plan obligations	5,626	369	5,995
Interest on effect of asset ceiling	38	—	38
Expected return on plan assets	(5,714)	—	(5,714)
Net benefit expense	**$ 2,271**	**$ 527**	**$ 2,798**

For the year ended December 31, 2017 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,411	$ 143	$ 2,554
Interest cost on plan obligations	5,975	396	6,371
Past service costs that have vested	435	—	435
Expected return on plan assets	(6,100)	—	(6,100)
Net benefit expense	$ 2,721	$ 539	$ 3,260

The fair value of plan assets by major investment type is as follows:

As at December 31 (in thousands of dollars)	2018	2017
Short term notes	**$ 14,859**	$ 11,275
Canadian Government bonds	**34,027**	34,718
Canadian corporate bonds	**2,504**	2,605
Canadian equities	**46,489**	55,038
Foreign equities	**58,169**	66,314
Annuities	**4,329**	5,140
	160,377	175,090
Contributions receivable	**—**	140
Amount related to defined contribution plans	**(8,991)**	(9,285)
	$ 151,386	$ 165,945

Plan assets do not include any common shares of the Company.

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. Management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation.

The actual return on invested plan assets for 2018 was 5.0% or $8,350 (2017 - 8.7% or $13,831).

The Company expects to make contributions of $1,504 (2017 - $2,588) to the defined benefit pension plans during the next fiscal year.

The expense recognized in the consolidated statements of earnings for defined contribution plans is $1,371 (2017 - $1,215).

Sensitivity analyses

Significant actuarial assumptions used in the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below are determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by $17,252 (increase by $20,948).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $1,663 (decrease by $1,562).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by $3,670 (decrease by $3,741).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated balance sheets.

The average duration of the benefit obligation at December 31, 2018 is 10.5 years (2017: 11.1 years). This number can be analysed as follows:

- active members: 14.4 years (2017: 14.4 years);
- deferred members: 14.3 years (2017: 15.6 years); and
- retired members: 8.6 years (2017: 8.7 years).

24. LONG-TERM DEBT

As at December 31 (in thousands of dollars)	2018	2017
Convertible unsecured subordinated debentures, due June 30, 2024, interest at 5.25%	**$ 79,749**	$ 79,338
Senior Secured Notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	**102,315**	94,088
Canadian $75,000, interest fixed at 5.52%	**75,000**	75,000
Bank Facility, due July 15, 2020		
LIBOR, U.S. $20,000, due January 19, 2018, interest at 3.50%	**—**	25,090
Base rate loan, interest at 6%	**—**	18,817
Prime rate loan, interest at 4.2%	**—**	5,000
Mortgage payable, due March 8, 2023, interest at 4.73%	**5,756**	—
	262,820	297,333
Less: unamortized financing expenses	**4,232**	5,329
	258,588	292,004
Less: current portion of long-term debt	**130**	48,907
	$ 258,458	$ 243,097

The Company is subject to certain covenants including ones with respect to maintaining defined financial ratios and other conditions under the terms of the Bank Facility and the Senior Secured Notes.

As at December 31, 2018 and December 31, 2017 the Company was in compliance with all of its covenants.

During 2018, the Company capitalized $6,570 (2017 - $13,885) in borrowing costs using a capitalization rate of 5.98% (2017 - 6.34%). The unamortized financing expenses relate to costs incurred to establish the credit facilities and to issue the debentures and senior notes and are being amortized over the remaining terms using the effective yield method. Principal payments required to service the debt are as follows:

As at December 31 (in thousands of dollars)	2018	2017
Falling due within one year	**$ 130**	$ 48,907
Falling due between one and two years	**136**	—
Falling due between two and three years	**177,458**	—
Falling due between three and four years	**150**	169,088
Falling due in four years or later	**84,946**	79,338
	$ 262,820	$ 297,333

25. SHARE CAPITAL

Share capital

Authorized share capital consists of an unlimited number of common and preferred shares with no par value.

The Company has 38,421,615 common shares outstanding as at December 31, 2018 (December 31, 2017 - 38,552,315).

At December 31, 2018 and December 31, 2017 there were no preferred shares issued and outstanding.

The Company's Board of Directors on January 17, 2019 authorized payment of a quarterly dividend to shareholders of $0.10 per common share. The dividend is payable on March 1, 2019 to shareholders of record on February 15, 2019.

The basic and diluted net earnings per share from continuing operations are computed as follows:

For the years ended December 31 (in thousands of dollars, except per share data)	2018	2017
Net earnings from continuing operations for basic earnings per share	**$ 50,943**	$ 34,972
Interest expense on debentures, net of tax	**3,939**	4,793
Net earnings from continuing operations for diluted earnings per share	**$ 54,882**	$ 39,765
Basic weighted average common shares	**38,493,198**	38,883,615
Shares due to dilutive effect of debentures	**3,900,709**	4,514,862
Diluted weighted average common shares	**42,393,907**	43,398,477
Basic earnings per common share from continuing operations	**$ 1.32**	$ 0.90
Diluted earnings per common share from continuing operations	**$ 1.29**	$ 0.84

Normal Course Issuer Bid

On January 23, 2018, Algoma filed a notice of intention to make a normal course issuer bid ("NCIB") with the Toronto Stock Exchange advising of its intention to purchase up to 1,927,615 of its commons shares representing approximately 5% of the common shares issued and outstanding as of the close of business on January 16, 2018.

Under the NCIB, the Company may purchase up to 1,838 common shares per day, representing 25% of the average daily trading volume during the six months ending December 31, 2017. The Company may buy back common shares anytime during the twelve-month period beginning on January 29, 2018 and ending on January 28, 2019. The stated capital of the common shares of $0.21 per share on the balance sheet equals the approximate paid-up capital amount of the common shares for purposes of the Income Tax Act. The purchase results in a reduction to share capital and a reduction to contributed surplus for the balance of the purchase price and expenses. Both items have been identified separately on the Consolidated Statements of Changes in Equity.

Total Common Shares purchased for the year ended December 31, 2018 under the NCIB were 130,700 for an aggregate purchase price of $1,892.

Substantial Issuer Bid

In December, 2017, the Company repurchased 361,418 common shares for cancellation at a price of $14.75 per Common Share under a substantial issuer bid ("SIB").

The Common Shares purchased under the SIB represent an aggregate purchase price of $5,920 and represented 0.9% of the total number of the Company's issued and outstanding common shares as of December 15, 2017 (the expiry date of the SIB).

26. ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands of dollars)	Hedges			
	Net investment	Purchase commitment	Foreign exchange translation	Total
Balance at December 31, 2016	$ (18,631)	$ 4,366	$ 10,420	$ (3,845)
Gain (loss)	7,180	(3,381)	(21,413)	(17,614)
Reclassified to earnings	—	(767)	—	(767)
Income tax (expense) recovery	(1,728)	447	—	(1,281)
Net gain (loss)	5,452	(3,701)	(21,413)	(19,662)
Balance at December 31, 2017	$ (13,179)	$ 665	$ (10,993)	$ (23,507)
(Loss) gain	(11,677)	1,914	26,865	17,102
Reclassified to earnings	—	(3,284)	—	(3,284)
Reclassified to property, plant, and equipment	—	(72)	—	(72)
Income tax (expense) recovery	(1,861)	777	—	(1,084)
Net (loss) gain	(13,538)	(665)	26,865	12,662
Balance at December 31, 2018	**$ (26,717)**	**$ —**	**$ 15,872**	**$ (10,845)**

The net investment hedge reserve represents the cumulative exchange differences on translation of long-term debt held in foreign currency. The Company has elected to hedge a portion of its net investment in foreign subsidiaries with its foreign-denominated debt. Exchange differences accumulated will be reclassified to earnings in the event of a disposal of a foreign operation.

The purchase commitment hedge reserve represents the cumulative exchange differences on translation of cash held in foreign currency which the Company has elected to designate as a hedge of future U.S. dollar commitments for the Equinox Class vessels. Exchange differences accumulated in the purchase commitment reserve are reclassified to property, plant, and equipment when the payments to the shipyard are made or to earnings when a hedge is deemed to be ineffective. At the end of 2018, no further cash held in foreign currency was designated as a hedge for purchase commitments.

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (Canadian dollars) are recognized directly in other comprehensive earnings and accumulated in the foreign exchange translation reserve. Exchange differences accumulated in the reserve are reclassified to earnings on the disposal of the foreign operation or on a pro-rata basis when cash held in the foreign subsidiary is repatriated to Canada as a return of the net investment.

27. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

The other items not affecting cash are as follows:

For the years ended December 31 (in thousands of dollars)	Notes	2018	2017
Interest expense	11	**$ 25,499**	$ 4,843
Interest income		**(13,752)**	(1,205)
Foreign currency gain	12	**(9,590)**	(5,946)
Income tax expense	13	**8,550**	13,524
		$ 10,707	$ 11,216

The change in non-cash operating working capital is as follows:

For the years ended December 31 (in thousands of dollars)	2018	2017
Accounts receivable	**$ (8,395)**	$ (12,011)
Materials and supplies	**1,031**	(629)
Prepaid expenses	**(692)**	205
Accounts payable and accrued charges	**(2,590)**	(6,430)
Other working capital	**(8,842)**	4,678
	$ (19,488)	$ (14,187)

The change in additions to property, plant and equipment is as follows:

For the years ended December 31 (in thousands of dollars)	Notes	2018	2017
Additions to Property, Plant, and Equipment	16	**$ 78,192**	$ 157,520
Capitalized interest	11	**(6,570)**	(13,885)
Amounts included in working capital		**(3,814)**	20,837
		$ 67,808	$ 164,472

28. CAPITAL DISCLOSURE

The Company's objectives for managing capital are as follows:

- Provide sustained growth of shareholder value by earning long-term returns on equity of 9.5%.
- Maintain a strong capital base to gain investor, creditor and market confidence and to sustain future growth. In this regard, the Company will target to maintain a long-term debt to equity ratio of no greater than one-to-one. The Company views a one-to-one ratio as a maximum rate due to the capital intensive nature of the business.
- Pay regular quarterly dividends to shareholders.

The Company's Board of Directors reviews the ROE target on an annual basis and it reviews the level of dividends to be paid to the Company's shareholders on a quarterly basis.

Included in ROE are net earnings and average shareholders' equity. The returns on equity over the last five years of the Company ranged from 4.2% to 9.0%.

The Company is not subject to any capital requirements imposed by a regulator.

The long-term debt to shareholders' equity ratio is as follows:

As at December 31 (in thousands of dollars)	2018	2017
Total long-term debt	**$ 262,820**	$ 297,333
Shareholders' equity	**$ 702,555**	$ 663,066
Debt to shareholders' equity ratio	**0.37 to 1**	0.45 to 1

29. COMMITMENTS

The Company has remaining commitments for the construction of one Equinox Class vessel and, through its interest in a joint venture, six bulk carriers. The payment of $19,099 ($14,000 US) will take place in early 2019 for the Equinox Class vessel. The Company's share of expected payments for the bulk carriers are $6,139 ($4,500 US) in 2019 and $22,509 ($16,500 US) in 2020.

30. CONTINGENCIES

The Company, in the normal course of business, may be involved in legal proceedings and tax audits. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions and tax audits are not expected to have a material effect on the Company's consolidated financial position, results of operations or liquidity.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Company's financial instruments that are included in the consolidated balance sheets comprise cash, accounts receivable, derivative assets, accounts payable and accrued charges, derivative liabilities, dividends payable and long-term debt.

Financial instruments that are measured at fair value are classified into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 and that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers into or out of Level 1, 2 or 3 during the periods.

Fair Value

The carrying value and fair value of financial assets and financial liabilities are as follows:

As at December 31 (in thousands of dollars)	**2018**	2017 (Note 7)
Financial assets carrying and fair value:		
Cash	**$ 25,539**	$ 68,860
Accounts receivable	**$ 72,714**	$ 64,184
Derivative asset	**$ 1,571**	$ 71
Contract cancellation receivable	**$ 68,040**	$ —
Loan interest receivable	**$ 709**	$ —
Other assets	**$ 14,261**	$ 14,256
Financial liabilities carrying and fair value:		
Accounts payable and accrued charges	**$ 67,032**	$ 69,622
Dividends payable	**$ 668**	$ 565
Derivative liabilities	**$ —**	$ 5,118
Compensation payable to Pool members	**$ 3,424**	$ 5,090
Carrying value of long-term debt	**$ 262,820**	$ 297,333
Fair value of long-term debt	**$ 267,287**	$ 307,734

The derivative assets and liabilities are classified as Level 2.

The difference in the fair value of long-term debt compared to the carrying value is due to the difference in the rates on the debt compared to current market rates for similar instruments with similar terms. The fair value of the convertible debentures included in long-term debt is based on market rates.

Financial risk management objectives

The Company monitors and manages the financial risks relating to the operations by analyzing exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company may take steps to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is approved by the Company's board of directors, which provides guidance on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company may also utilize foreign exchange forward contracts and hedges related to purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join the Canadian flag domestic dry-bulk fleet.

Hedging relationships are documented and designated at inception and their continuing effectiveness is assessed at least quarterly.

Risk Management and Financial Instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of those risks.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. The maximum exposure to credit risk is represented by the carrying value of the financial assets on the consolidated balance sheets.

The Company believes that the credit risk for accounts receivable is limited since the majority of accounts receivable at December 31, 2018 and 2017 have been outstanding for 60 days or less, and the customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies.

A provision for bad debts is established when it is determined the amount to be collected is lower than the carrying value. The allowance for doubtful accounts at December 31, 2018 and December 31, 2017 was not significant. The percentage of accounts receivable greater than 60 days past due was 20.3% and 10.8%, for December 31, 2018 and 2017, respectively.

Liquidity risk

The cash on hand, expected cash from operations and existing credit facilities are expected to be sufficient to allow the Company to meet its planned operating and capital requirements and other contractual obligations.

The Company maintains credit facilities, which are reviewed regularly to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facility at December 31, 2018 and 2017 was Canadian $50,000 and U.S. $100,000 in a revolving facility. At December 31, 2018, the Company had Canadian $50,000 (2017 - $45,000) and U.S. $100,000 (2017 - $53,043) available in the existing credit facility.

Substantially, all of the Company's wholly owned marine assets were pledged as collateral for the line of credit. The carrying value as of December 31, 2018 of the assets pledged was approximately $702,417. The Company's real estate assets and vessels that are not wholly owned are not directly encumbered under these agreements.

The contractual maturities of non-derivative financial liabilities are as follows:

(in thousands of dollars)	2019	2020	2021	2022	2023 and Beyond	Total
Long-term debt including equity component	$ 130	$ 136	$ 177,458	$ 150	$ 87,698	$ 265,572
Capital asset commitments	25,238	22,509	—	—	—	47,747
Dividends payable	3,842	—	—	—	—	3,842
Interest payments on long-term debt	13,969	13,963	9,696	4,581	6,558	48,767
	$ 43,179	$ 36,608	$ 187,154	$ 4,731	$ 94,256	$ 365,928

Market risk

(a) Fuel prices

The Company has provisions in the vast majority of its contracts with customers that provide adjustment mechanisms for changes in fuel prices. Accordingly, there is not a significant exposure to the volatility of fuel prices.

(b) Interest rate risk

The Company is exposed to interest rate risk because the Company can borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. At December 31, 2018 and 2017, the Company did not have any significant cash flow exposure to interest rate movements for its outstanding debt, since substantially all of its borrowings have interest rates that have been fixed (Note 24).

(c) Interest rate sensitivity analysis

At December 31, 2018 and 2017 respectively, all of the Company borrowings have interest rates that are substantially fixed, therefore there is minimal exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period.

(c) Foreign currency exchange risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The foreign currency exchange risk to the Company results primarily from changes in exchange rates between the Company's reporting currencies, the Canadian dollar and the U.S. dollar.

At December 31, 2018 and December 31, 2017, approximately 38% and 24% respectively of the Company's total assets were denominated in U.S. dollars, including U.S. cash of $10,676 and $29,516 at December 31, 2018 and December 31, 2017, respectively.

The Company's exposure to foreign currency fluctuations is related to its unhedged cash balances and unhedged net investment in foreign subsidiaries. The Company has hedged part of its investment in the subsidiaries and joint ventures against its foreign denominated long-term debt. At December 31, 2018 and 2017, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $272,247 and $169,019 U.S. dollars, respectively. The amount used as a hedge at December 31, 2018 and 2017 was $75,000 and $95,000 U.S. dollars respectively.

The Company has significant commitments due for payment in U.S. dollars. The Company utilizes foreign exchange forward contracts and U.S. cash as a hedge on purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet. For payments due in U.S. dollars for foreign vessels, the Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2018 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €nil (December 31, 2017 - €78,662) and a fair value loss of $nil (December 31, 2017 - $7,377), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $14,000 (December 31, 2017 - $24,840) and fair value gain of $1,571 (December 31, 2017 - loss of $663). The contract maturities are as follows: 2019 - U.S. - $14,000.

(e) Foreign Currency Sensitivity Analysis (after income tax)

Based on the Company's estimates, a ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase net earnings in the current year by $1,581.

Based on the balances at December 31, 2018 and 2017:

- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase other comprehensive earnings by $31,279 and $19,329, respectively.
- A ten-cent weakening in the Canadian dollar relative to the Euro dollar would increase other comprehensive earnings by $14 and $925, respectively.

- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase total assets by $30,895 and $21,431, respectively.

- A ten-cent weakening in the Canadian dollar relative to the U.S dollar would increase total liabilities by $7,500 and $9,500, respectively.

For a ten-cent strengthening in the Canadian dollar relative to the U.S. dollar, there would be an equal but opposite impact to the amounts stated above.

32. SEGMENT DISCLOSURES

The Company operates through six segments; Domestic Dry-Bulk, Product Tankers, Ocean Self-Unloaders, Global Short Sea Shipping, Investment Properties and Corporate. The segment operating results include fully consolidated subsidiaries and interests in jointly controlled entities. Segment disclosures are based on how the Chief Executive Officer views operating results and how decisions are made about resources to be allocated to operating segments.

The following presents the Company's results from continuing operations by reportable segment.

	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Corporate	Investment Properties	Global Short Sea Shipping	Total
For the year ended December 31, 2018 (in thousands of dollars)							
Revenue	$ 297,662	$ 106,271	$ 90,277	$ 2,878	$ 11,113	$ —	$ 508,201
Operating expenses	(224,191)	(88,070)	(57,026)	(873)	(7,300)	—	(377,460)
Selling, general and administrative	(11,194)	(2,257)	(2,338)	(12,975)	—	—	(28,764)
	62,277	15,944	30,913	(10,970)	3,813	—	101,977
Depreciation and amortization	(22,700)	(9,867)	(19,394)	(970)	(2,783)	—	(55,714)
Impairment reversal	6,864	—	—	—	—	—	6,864
Interest, net	(170)	—	—	(11,577)	—	—	(11,747)
Foreign currency gain	7,377	—	—	2,213	—	—	9,590
	53,648	6,077	11,519	(21,304)	1,030	—	50,970
Income Tax Expense	(10,482)	(1,475)	—	3,762	(355)	—	(8,550)
Net Earnings of Joint Ventures	—	—	717	—	—	7,806	8,523
Net Earnings from Continuing Operations	$ 43,166	$ 4,602	$ 12,236	$ (17,542)	$ 675	$ 7,806	$ 50,943
As at December 31, 2018 (in thousands of dollars)							
Assets							
Current assets	$ 57,247	$ 8,224	$ 15,599	$ 111,622	$ 7,295	$ —	$ 199,987
Property, Plant, and Equipment	415,017	110,085	174,824	6,860	19,465	—	726,251
Goodwill and Intangible Assets	7,910	—	7,743	—	—	—	15,653
Investment in Joint Ventures	—	—	4,167	—	—	149,122	153,289
Other Assets	—	—	6	16,707	—	—	16,713
	$ 480,174	$ 118,309	$ 202,339	$ 135,189	$ 26,760	$ 149,122	$ 1,111,893
Liabilities							
Current liabilities	$ 36,756	$ 12,412	$ 9,717	$ 15,171	$ 1,115	$ —	$ 75,171
Current portion of long-term debt	—	—	—	130	—	—	130
Long-Term Liabilities	33,441	15,722	3,715	19,644	3,057	—	75,579
Long-Term Debt	—	—	—	258,458	—	—	258,458
	70,197	28,134	13,432	293,403	4,172	—	409,338
Shareholders' Equity	409,977	90,175	188,907	(158,214)	22,588	149,122	702,555
	$ 480,174	$ 118,309	$ 202,339	$ 135,189	$ 26,760	$ 149,122	$ 1,111,893

	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Corporate	Investment Properties	Global Short Sea Shipping	Total
For the year ended December 31, 2017 (in thousands of dollars) (Note 7)							
Revenue	$ 278,265	$ 86,274	$ 74,912	$ 1,897	$ 11,599	$ —	$ 452,947
Operating expenses	(209,527)	(68,457)	(42,652)	(770)	(6,776)	—	(328,182)
Selling, general and administrative	(10,651)	(2,631)	(897)	(14,597)	—	—	(28,776)
	58,087	15,186	31,363	(13,470)	4,823	—	95,989
Depreciation and amortization	(18,691)	(9,616)	(16,812)	(1,461)	(4,991)	—	(51,571)
Interest, net	—	—	—	(3,638)	—	—	(3,638)
Foreign currency gain	3,687	—	—	2,259	—	—	5,946
	43,083	5,570	14,551	(16,310)	(168)	—	46,726
Income Tax Expense	(11,056)	(1,956)	—	(1,248)	736	—	(13,524)
Net Earnings of Joint Ventures	—	—	(1,704)	—	—	3,474	1,770
Net Earnings from Continuing Operations	$ 32,027	$ 3,614	$ 12,847	$ (17,558)	$ 568	$ 3,474	$ 34,972

As at December 31, 2017 (in thousands of dollars) (Note 7)	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Corporate	Investment Properties	Global Short Sea Shipping	Total
Assets							
Current assets	$ 41,752	$ 11,738	$ 15,556	$ 87,670	$ 5,266	$ —	$ 161,982
Property, Plant, and Equipment	503,036	92,957	169,098	4,754	21,959	—	791,804
Goodwill and Intangible Assets	7,910	—	7,921	—	—	—	15,831
Investment in Joint Ventures	—	—	5,507	—	—	98,425	103,932
Other Assets	—	—	—	26,741	—	—	26,741
	$ 552,698	$ 104,695	$ 198,082	$ 119,165	$ 27,225	$ 98,425	$ 1,100,290
Liabilities							
Current liabilities	$ 46,302	$ 5,357	$ 7,300	$ 17,510	$ 1,228	$ —	$ 77,697
Current portion of long-term debt	—	—	—	48,907	—	—	48,907
Long-Term Liabilities	25,285	14,975	5,012	18,643	3,608	—	67,523
Long-Term Debt	—	—	—	243,097	—	—	243,097
	71,587	20,332	12,312	328,157	4,836	—	437,224
Shareholders' Equity	481,111	84,363	185,770	(208,992)	22,389	98,425	663,066
	$ 552,698	$ 104,695	$ 198,082	$ 119,165	$ 27,225	$ 98,425	$ 1,100,290

Certain comparative figures have been reclassified to conform to the current year presentation which reflects the measures reviewed by the chief operating decision maker.

The Company has interests which carry on most of their operations in foreign jurisdictions.

The Company's proportionate share of the property, plant, and equipment and revenues from foreign operations is as follows:

As at December 31 (in thousands of dollars)	**2018**	2017
Property, plant, and equipment	**$ 174,824**	$ 169,098
Revenues	**$ 90,277**	$ 74,912

Revenue earned outside of Canada, primarily to the United States, relate to vessel operations and are based on the location at which a shipment is unloaded. For the years ended December 31, 2018 and 2017, sales outside of Canada were $139,556 and $118,687, respectively.

The Company had two customers in 2018 and two in 2017 whose revenues exceeded 10% of consolidated revenues. Sales by segment for these customers are as follows:

For the years ended December 31 (in thousands of dollars)	**2018**	2017
Domestic Dry-Bulk	**$ 102,662**	$ 93,155
Product Tankers	**$ 93,169**	$ 84,713

33. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key members of management is as follows:

For the years ended December 31 (in thousands of dollars)	**2018**	2017
Short-term compensation and benefits	**$ 5,286**	$ 5,357
Termination benefits	**—**	1,389
Share-based compensation	**122**	502
Post-employment benefits	**171**	286
	$ 5,579	$ 7,534

34. SHARE-BASED COMPENSATION

The Company maintains a stock option program for certain key employees. Options on common shares are periodically granted to eligible employees under the plan for terms of 5 years and cliff vest on the third anniversary of the grant date. These options provide holders with the right to purchase common shares of the Company at a fixed price equal to the closing market price of the shares on the day prior to the date the options were issued. Under this plan, 1,920,736 common shares have been reserved for future issuance. The outstanding options expire on various dates to May 8, 2023. The following table summarizes the Company's stock option activity and related information for the years ended December 31, 2018.

(in thousands of dollars, except per share data)	2018	
Stock Option Activity	Number of shares	Weighted average exercise price
Number outstanding, beginning of year	—	$ 15.00
Granted	250,000	15.06
Exercised	—	—
Forfeited/cancelled	—	—
Number outstanding, end of year	250,000	$ 15.06

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2018.

(in thousands of dollars, except per share data)	Options outstanding			Options exercisable	
Range of Exercise Prices	Number of shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares exercisable	Weighted average exercise price
$15.00	250,000	$ 4.33	$ 15.06	250,000	$ 15.06

For the year ended December 31, 2018, the Company recognized compensation expense for stock option awards of $110 (2017 - nil). For the year ended December 31, 2018, 250,000 (2017 - nil) options were granted by the Company at a weighted average fair value of $1.98 per option (2017 - nil).

35. DISCONTINUED OPERATIONS

In November 2015, the Company announced its decision to sell its investment properties comprising commercial, retail and other buildings. The decision to sell the investment properties was the result of a review of the strategic objectives of the Company and a decision to focus the Company's capital on domestic and international shipping opportunities.

Assets of discontinued operations held for sale were classified as held for sale when the asset (or disposal group) was available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal group) and its sale is highly probable.

The results of discontinued operations, net of tax, are presented separately from the results of continuing operations in the consolidated statements of earnings. Cash flows from discontinued operations are presented separately from cash flows from continuing operations in the consolidated statements of cash flows.

The operating results from the discontinued operation are as follows:

For the year ended December 31 (in thousands of dollars)		2017
Revenue	$	5,051
Operating expenses		(4,036)
Selling, general and administrative, and depreciation		(1,454)
Interest income		22
Gain on sale of properties		28,857
Earnings before income taxes		28,440
Income taxes		(4,612)
Net earnings	$	23,828

The assets and liabilities of the discontinued operation are as follows:

As at December 31 (in thousands of dollars)		2017
Accounts receivable	$	649
Deferred income taxes		324
Total assets	$	973
Accounts payable and accrued charges	$	1,011
Income taxes payable		477
Total liabilities	$	1,488

In 2017, the Company sold seven of its real estate properties. The cash flows from discontinued operations are as follows:

For the year ended December 31 (in thousands of dollars)		2017
Net cash (used) generated from operating activities	$	(3,210)
Net cash used in investing activities		(1,560)
Net cash from sale of properties		54,668
Cash provided from discontinued operation	$	49,898

36. RELATED PARTIES

The Company's ultimate controlling party is the Honourable Henry N. R. Jackman, a Canadian resident, together with a trust created in 1969 by his father, Henry R. Jackman.

There were no transactions with related parties in 2018 and 2017.

37. SUBSEQUENT EVENTS

In efforts to expand the Ocean Self-Unloader business, Algoma entered into an agreement subsequent to the year end to acquire the interest held by Oldendorff Carriers GMBH & Co. in the CLSI Pool, including three vessels owned by Oldendorff and operating in the Pool, for US$100 million. The deal is expected to close in the second quarter of 2019, at which time Algoma's interest in the Pool will increase to approximately 40%.

The Company entered into an agreement to purchase an additional product tanker for US $15.9 million with delivery scheduled in March 2019.

Five-Year Summary

(in thousands of dollars, except per share data)	2018	2017 (Note 1, 5)	2016 (Note 1)	2015	2014
Revenue					
Domestic Dry-Bulk	$ 297,662	$ 278,265	$ 244,221	$ 299,553	$ 337,244
Product Tankers	106,271	86,274	63,004	75,335	95,152
Ocean Dry-Bulk Shipping	90,277	74,912	72,179	38,605	41,050
Investment Properties	11,113	11,599	12,002	—	—
Corporate	2,878	1,897	—	—	—
	$ 508,201	$ 452,947	$ 391,406	$ 413,493	$ 473,446
Net earnings	$ 50,943	$ 58,800	$ 33,315	$ 25,771	$ 52,765
Segment earnings net of income taxes	$ 50,943	$ 34,972	$ 24,554	$ 37,534	$ 54,276
Depreciation and amortization	$ 55,714	$ 51,571	$ 46,903	$ 44,907	$ 39,255
General and administrative expenses	$ 28,764	$ 28,776	$ 29,309	$ 26,313	$ 23,831
Cash flow from operations	$ 80,110	$ 59,669	$ 90,088	$ 57,751	$ 97,647
Dividends paid	$ 14,647	$ 11,611	$ 10,895	$ 10,895	$ 10,895
Property, plant, and equipment					
Additions in year	$ 78,192	$ 157,520	$ 248,864	$ 115,857	$ 25,332
Net book value	$ 706,786	$ 769,845	$ 660,251	$ 513,140	$ 530,726
EBITDA (Note 2)	$ 128,748	$ 107,882	$ 87,922	$ 79,538	$ 99,192
Total assets	$1,111,893	$ 1,100,290	$1,036,013	$ 988,805	$ 974,055
Long-term debt including current	$ 262,820	$ 297,333	$ 243,260	$ 246,754	$ 227,562
Shareholders' equity	$ 702,555	$ 663,066	$ 641,550	$ 618,610	$ 607,099
LTD as a percent of shareholders' equity	37.4 %	44.8%	37.9 %	39.9 %	37.5 %
Return on equity (Note 3)	7.5 %	9.0%	5.3 %	4.2 %	9.0 %
Total shareholder return (Note 4)	(18.5)%	33.6%	(10.5)%	(12.9)%	(0.7)%
Common Share Statistics					
Shares outstanding	38,422	38,552	38,913	38,913	38,912
Basic earnings per share	$ 1.32	$ 1.51	$ 0.85	$ 0.66	$ 1.36
Diluted earnings per share	$ 1.29	$ 1.38	$ 0.74	$ 0.66	$ 1.31
Cash flow per share	$ 2.09	$ 1.55	$ 2.31	$ 1.48	$ 2.51
Quoted market value					
High	$ 16.00	$ 16.04	$ 14.18	$ 17.60	$ 17.43
Low	$ 11.61	$ 11.46	$ 9.75	$ 13.27	$ 14.65
Dividends paid per share	$ 0.39	$ 0.32	$ 0.28	$ 0.28	$ 0.28
Shareholders' equity per share	$ 18.29	$ 17.20	$ 16.49	$ 15.90	$ 15.60

Note 1 - Due to the suspension of ongoing efforts to sell the shopping centre, the properties have been reclassified from discontinued operations into continuing operations as Investment Properties. Under IFRS 5, the historical operating results of these properties have been reclassified to continuing operations on a retroactive basis.

Note 2 - EBITDA refers to earnings before interest, taxes, depreciation, and amortization including EBITDA of discontinued operations and the Company's share of the EBITDA of equity interests in joint arrangements.

Note 3 - Return on equity is net earnings as a percent of average shareholders' equity.

Note 4 - Total shareholder return is defined as the increase or decrease in the year in the common share price plus dividends paid expressed as a percent of the opening share price.

Note 5 - Some items have been restated in accordance with the revision to prior period comparatives detailed in Note 7 of the consolidated financial statements

Shareholder and Investor Information

Directors

Richard B. Carty (1) (2) (3)
Toronto, Ontario,
Vice President, General Counsel
and Corporate Secretary
E-L Financial Corporation Limited

Paul R. Gurtler (3) (5)
Hamilton, Bermuda
Managing Director
Interlink Maritime Corporation

E. M. Blake Hutcheson (1) (3)
Toronto, Ontario,
President and Chief Pension Officer, OMERS

Duncan N. R. Jackman (2) (4) (5)
Toronto, Ontario,
Chairman, President
and Chief Executive Officer E-L Financial Corporation Limited

Mark McQueen (1)
Toronto, Ontario,
President and Executive Managing Director, Innovation Banking
CIBC

Clive P. Rowe (2) (4) (5)
New York, New York,
Partner, Oskie Capital

Harold S. Stephen (1) (2)
Mississauga, Ontario,
Chairman and Chief Executive Officer Stonecrest Capital Inc.

Eric Stevenson (2) (3) (5)
Toronto Ontario,
Venture Capitalist and Co-Founder
Perseverance Marine

(1) Member of the Audit Committee
(2) Member of the Corporate Governance Committee
(3) Member of the Environmental, Health and Safety Committee
(4) Member of the Executive Committee
(5) Member of the Investment Committee

Principle Officers

Duncan N. R. Jackman
Chairman

Gregg A. Ruhl
President and Chief Executive Officer

Peter D. Winkley, CPA, CA
Chief Financial Officer

J. Wesley Newton, LLB
Senior VP, Corporate Development and General Counsel

Brad Tiffin
Senior VP, Operations and Technical

Mario Battista, CPA, CMA
Vice-President, Finance and Process Innovation

Fredrik Hanson
Vice-President, Finance and Administration

Christopher A. L. Lazarz, CPA, CA
Vice-President, Corporate Finance

Bruce Partridge, MBA
Vice-President, Commercial

Steve Wright
Vice-President, Engineering

Jeff DeRosario
Assistant VP, Marketing

Joshua Juel
Assistant VP, Marine Ops & Fleet Personnel

Cathy Smith
Assistant VP, Human Resources

Shareholders' Meeting

The Annual General Meeting of Shareholders will be held at 11:30 a.m., on Friday, May 3, 2019 at Vantage Venues, 27th Floor, 150 King Street West, Toronto, ON.

Shareholder Information

Principal Banker and Security Agent:	The Bank of Nova Scotia
Auditors:	Deloitte LLP
Toronto Stock Exchange Symbols:	ALC - Common Stock ALC DB.A - Convertible Debenture
Share Registrar and Transfer Agent:	AST Trust Company (Canada) P.O. Box 4202, Station A, Toronto, ON M5V 2V6 Tel: 416-682-3800 or 1-888-402-1644 Email: businessdev@astfinancial.com Website: www.astfinancial.com

2018

www.algonet.com