



# **Algoma Central Corporation**

**Interim Report to Shareholders**

**For the Three Months Ended  
March 31, 2010 and 2009**

# **ALGOMA CENTRAL CORPORATION**

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# **ALGOMA CENTRAL CORPORATION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **General**

Algoma Central Corporation (the "Corporation") operates through four segments, Domestic Dry-Bulk, Product Tankers, Ocean Shipping and Real Estate.

This Management's Discussion and Analysis of the Corporation should be read in conjunction with its consolidated financial statements for the years ending December 31, 2009 and 2008 and related notes thereto, and has been prepared as at April 30, 2010.

The Management's Discussion and Analysis 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 Corporation, including its Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [www.algonet.com](http://www.algonet.com).

The accounting principles used by the Corporation to prepare the financial data contained in this Management's Discussion and Analysis are fully described in the notes to the consolidated financial statements for the years ending December 31, 2009 and 2008. The accounting policies have been consistently followed in preparation of the interim financial statements.

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

This Management's Discussion and Analysis may include forward-looking statements concerning the future results of the Corporation. These forward-looking statements are based on current expectations. The Corporation cautions that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future results could be affected by a number of factors, many of which are beyond the Corporation's control including economic circumstances, technological changes, weather conditions, and the material risks and uncertainties identified by the Corporation and discussed in the 2009 Management's Discussion and Analysis and financial statements.

# ALGOMA CENTRAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Summary of Quarterly Results

The results for the last eight quarters are as follows:

Year	Quarter	Revenue	Net earnings (loss)	Earnings (loss) per share
2010	Quarter 1	\$ 57,844	\$ (16,937)	\$ (4.35)
2009	Quarter 4	\$ 167,059	\$ 23,169	\$ 5.95
	Quarter 3	\$ 151,454	\$ 20,620	\$ 5.30
	Quarter 2	\$ 141,199	\$ 13,509	\$ 3.47
	Quarter 1	\$ 60,435	\$ (18,453)	\$ (4.74)
2008	Quarter 4	\$ 196,402	\$ 16,832	\$ 4.33
	Quarter 3	\$ 226,836	\$ 18,523	\$ 4.76
	Quarter 2	\$ 196,969	\$ 14,196	\$ 3.65

The nature of the Corporation'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 much 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, the first quarter revenues and earnings are significantly lower than the remaining quarters in the year.

With the exception of the significant repair and maintenance costs incurred in the first quarter, the fluctuations and seasonality of the quarterly earnings has become less of a factor in recent years due to the product tanker and ocean shipping fleets operating year round, a somewhat longer season for the domestic dry-bulk fleet and the increase in our real estate portfolio.

### Overall Performance

The Corporation is reporting a net loss for the three months ended March 31, 2010 of \$16,937 compared to a net loss of \$18,453 for the same period in 2009. The decrease in the net loss was due primarily to a reduction in the operating loss after income taxes of the Domestic Dry Bulk segment and an increase in foreign exchange gains.

The Domestic Dry-Bulk segment's operating loss net of income tax decreased from \$22,999 to \$20,654 due primarily to a reduction in repair and maintenance costs, reduced crew costs and higher revenue due to a better mix of business.

# ALGOMA CENTRAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Product Tanker segment operating earnings net of income tax decreased from \$200 to a loss of \$90 mainly as a result of lower market demand.

The operating earnings net of income tax of the Ocean Shipping segment for the three months ended March 31, 2010 were \$3,138 compared to \$3,885 for the same period in 2009. An increase in operating earnings due primarily to lower costs for planned regulatory dry-docking costs was more than offset with an increase in income tax expense relating to the strengthening Canadian dollar versus the U.S. dollar. An additional factor contributing to the decrease was the conversion of the 2010 results denominated in U.S. dollars to Canadian dollars at a lower average foreign exchange rate.

The Real Estate segment operating earnings net of income tax decreased from \$1,110 to \$523 due primarily to additional costs incurred with the re-opening of the hotel operations and lower occupancy at the Sault Ste. Marie shopping mall.

### Results of Operations

#### Net Earnings

The net earnings by segment are as follows:

	Three Months Ended March 31	
	2010	2009
Operating (loss) earnings net of income tax		
Domestic Dry-Bulk	\$ (37,390)	\$ (41,587)
Loss of non-controlling interest ( <i>Note 1</i> )	16,736	18,588
	(20,654)	(22,999)
Product Tankers	(90)	200
Ocean Shipping	3,138	3,885
Real Estate	523	1,110
	(17,083)	(17,804)
Not specifically identifiable to segments		
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities	681	(189)
Financial	(1,006)	(917)
Income tax recovery	471	457
	\$ (16,937)	\$ (18,453)

*Note 1* - The operating loss of the non-controlling interest is net of imputed income tax recovery.

# ALGOMA CENTRAL CORPORATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Revenue

Revenue by segment for the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31	
	2010	2009
Domestic Dry-Bulk	\$ 14,062	\$ 12,675
Product Tankers	14,636	18,086
Ocean Shipping	22,098	22,817
Real Estate	7,048	6,857
	<hr/>	<hr/>
	\$ 57,844	\$ 60,435

The increase in revenue for the Domestic Dry-Bulk segment for the three months ended March 31, 2010 when compared to the similar period in 2009 was due primarily to favourable freight mix and an increase in fuel costs recovered through fuel surcharges.

The Product Tankers segment decrease in revenue for the three months ended March 31, 2010 when compared to 2009 was largely due to fewer operating days as a result of reduced demand.

The Ocean Shipping revenue decrease for the three months ended March 31, 2010 when compared to the similar period in 2009 was due primarily to converting revenues denominated in U.S. dollars to Canadian dollars at a lower average foreign exchange rate in 2010 as a result of the strengthening of the Canadian dollar when compared to the U.S. dollar. Partially offsetting this decrease was added revenue from an increase in operating days in 2010 due to timing of planned regulatory dry-dockings.

The slight increase in revenue for the Real Estate segment was due primarily to higher occupancy and rates at the hotel property partially offset with lower occupancy at the shopping mall in Sault Ste. Marie.

# ALGOMA CENTRAL CORPORATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### *Operating Expenses*

The operating expenses by segment for the three months ended March 31, 2010 and 2009 are as follows:

	Three Months Ended March 31	
	2010	2009
Domestic Dry-Bulk	\$ 60,888	\$ 67,138
Product Tankers	10,712	13,937
Ocean Shipping	16,039	16,608
Real Estate	4,567	3,564
	<hr/>	<hr/>
	\$ 92,206	\$ 101,247

The decrease in operating expenses of the Domestic Dry-Bulk segment for the three months ended March 31, 2010 compared to the similar period in 2009 was due primarily to a decrease in repair and maintenance costs.

The decrease in operating expenses of the Product Tankers segment for the three months ended March 31, 2010 compared to the similar period in 2009 was due largely to reduced repair costs, lower voyage costs and a reduction in operating days.

The decrease in operating expenses of the Ocean Shipping segment was due primarily to converting expenses denominated in U.S. dollars to Canadian at a lower average foreign exchange rate and reduced dry-docking costs.

The increase in the operating expenses of the Real Estate segment was due primarily to additional costs related to the re-opening of the hotel property in Sault Ste. Marie and a decrease in gains on sale of assets.

### *General and Administrative Expenses*

The decrease in general and administrative expenses for the three months ended March 31, 2010 of \$736 compared to the same period in 2009 was due to lower employee compensation costs partially offset with an increase in professional fees.

### *Amortization on Capital Assets*

Amortization expense on capital assets for the three months ended March 31, 2010 was \$9,108 versus \$9,355 for the same 2009 period. The decrease was due primarily to converting the amortization of U.S. assets to Canadian dollars at a lower average foreign exchange rate due to the strengthening of the Canadian dollar versus the U.S. dollar.

# ALGOMA CENTRAL CORPORATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### *Financial Expense*

Financial expense for the three months ended March 31, 2010 was \$1,006 versus \$917 for the 2009 comparable period. The increase in expense is due to higher borrowings resulting from payments for vessel acquisitions and the increased cost of borrowing.

### *Net Gain (Loss) on Translation of Foreign Denominated Assets and Liabilities*

The net gain (loss) on the translation of foreign denominated assets and liabilities for the three months ended March 31, 2010 and 2009 consists of the following:

	Three Months Ended March 31	
	2010	2009
Gain (loss) on U.S. denominated debt	\$ 1,485	\$ (994)
Realized (loss) gain on returns of capital from foreign subsidiaries	(665)	618
Other	(139)	187
	<u>\$ 681</u>	<u>\$ (189)</u>

The gains and losses on the U.S. denominated debt are related to the translation to Canadian dollars of the foreign denominated debt. At March 31, 2010 and 2009, the Corporation had U.S. debt of \$42,000 and \$23,000 respectively. The gains in 2010 were due to the strengthening of the Canadian dollar against the U.S. dollar and in 2009, losses were incurred due to weakening of the Canadian dollar.

The realized gain and loss on the return of capital from foreign subsidiaries relates to the gains and losses on foreign exchange on cash returned to the Corporation from its self-sustaining foreign operations.

### *Income Tax*

The income tax recovery for the three months ended March 31, 2010 was \$9,238 compared to a recovery of \$12,624 for the comparable period in 2009. The decrease in the tax recovery was due primarily to a reduced loss before income taxes and non-controlling interest.

The effective income tax rate for 2010 was 18.3% compared to an effective income rate of 21.5% in 2009. The Canadian statutory rate for the Corporation for 2010 and 2009 is 31.5% and 33.0 % respectively. The variation in the effective income tax rate from the statutory income tax rate in both periods was due primarily to lower income tax rates of certain foreign subsidiaries.

# **ALGOMA CENTRAL CORPORATION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### *Non-Controlling Interest*

The domestic dry-bulk fleet operates primarily through the Seaway Marine Transport partnership, which is fully consolidated as a variable interest entity in the Corporation's consolidated financial statements. The operational and commercial activities of the domestic dry-bulk fleet are combined in the partnership with those of another unrelated Canadian ship owner.

The loss of the non-controlling interest represents the other partner's proportionate share of the loss in the Seaway Marine Transport partnership.

### *Comprehensive Loss*

The comprehensive loss for the three months ended March 31, 2010 was \$23,647 compared to a comprehensive loss of \$11,087 for the comparable period in 2009.

The increase in the comprehensive loss in 2010 compared to 2009 was due primarily to unrealized losses in the year on the translation of the net investment in foreign self-sustaining operations. This was due to the strengthening of the Canadian dollar against the U.S. dollar in 2010 to March 31 whereas in 2009 to March 31, the Canadian dollar weakened resulting in unrealized gains.

### *Internal Controls over Financial Reporting*

There have been no changes in the Corporation's internal controls over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

# ALGOMA CENTRAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Condition, Liquidity and Capital Resources

*Excerpts from the Statement of Cash Flows*

Three Months Ended March 31	2010	2009	Increase (decrease) in cash
Net loss	\$ 16,937	\$ 18,453	\$ 1,516
Cash used by operating activities before changes in working capital	\$ 44,583	\$ 67,065	\$ 22,482
Cash used by operating activities after changes in working capital	\$ 4,697	\$ 3,989	\$ (708)
Cash used in investing activities	\$ 17,666	\$ 15,649	\$ (2,017)
Cash provided by financing activities	\$ 22,174	\$ 25,828	\$ (3,654)

#### *Cash Used By Operating Activities*

Cash used by operating activities after the changes in working capital for the three months ended March 31, 2010 and 2009 increased to \$4,697 from \$3,989. Less cash used by operating activities before changes in working capital was due primarily to a reduced loss and a decrease in the change in future income taxes. These decreases were largely offset with an increase in cash provided by current income taxes which is included in working capital. The changes in both the future and current income taxes were due to lower taxable profits in the Seaway Marine Transport partnership. In addition to the above factors, less cash was received from accounts receivable and accounts payable.

#### *Cash Used In Investing Activities*

Cash used in investing activities for the three months ended March 31, 2010 of \$17,666 was primarily for the purchase of the *Algoma Dartmouth* for \$8,997, instalments on the second new forebody of \$3,277 and \$2,075 for the hotel modernization in Sault Ste. Marie.

In 2009, capital asset additions included the duty payment on the *AlgoCanada* of \$9,250 and new generators on domestic dry-bulk vessels for \$3,777.

#### *Cash Provided By Financing Activities*

Cash from financing activities in both periods relates primarily to proceeds from long-term debt to assist in the financing of capital asset purchases and for the repairs and maintenance of domestic dry-bulk vessels during the annual winter lay-up period.

# **ALGOMA CENTRAL CORPORATION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Financial Condition, Liquidity and Capital Resources (continued)**

Dividends were paid to shareholders at \$0.45 per common share for the three month period ended March 31, 2010 and 2009, totalling \$1,692 in 2010 and \$1,688 in 2009.

Contributions from the non-controlling interest relate to the financing needs of the Seaway Marine Transport partnership. The decrease in 2010 when compared to 2009 is due primarily to less repair and maintenance work done during the winter lay-up period.

#### *Capital Resources*

Cash and cash equivalents on hand at March 31, 2010 of \$11,753, existing credit facilities and expected cash from operations for 2010 will exceed the Corporation's planned operating and capital requirements and other contractual obligations for 2010.

The Corporation maintains credit facilities that are reviewed periodically to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facilities at March 31, 2010 were \$296,000 consisting of \$60,000 in a revolving facility and \$236,000 in three non-revolving term facilities. At March 31, 2010, the Corporation had \$155,218 available in existing credit facilities.

#### *Contingencies*

For information on contingencies, please refer to Note 19 of the consolidated financial statements for the years ending December 31, 2009 and 2008. There have been no significant changes in the items presented since December 31, 2009.

### **Future Accounting Changes**

#### **International Financial Reporting Standards ("IFRS")**

The Canadian Institute of Chartered Accountants has announced that IFRS will replace Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS.

A detailed discussion of the expected impact is contained in the MD&A on pages 19 through 22 of the 2009 Annual Report. The disclosure is being updated for progress made as the assessment of the impact of the transition continues.

#### **First-time adoption of IFRS**

The adoption of IFRS will require the application of IFRS 1, "First- Time Adoption of IFRS" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of all IFRS standards effective at the reporting date, with the exception of certain mandatory exceptions and limited optional exemptions provided in the standard. The following are the significant optional exemptions available under IFRS 1 that the Corporation expects to apply in preparing its opening balance sheet in accordance with IFRS.

# **ALGOMA CENTRAL CORPORATION**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### *1. Fair value as deemed cost*

IFRS 1 allows an entity to elect to measure property, plant and equipment and investment property at fair value in the opening IFRS balance sheet. Fair value would then become the deemed cost. Alternatively, an entity can retrospectively apply the historical cost model in IAS 16, "Property, Plant and Equipment", to arrive at the carrying value of property, plant and equipment on the transition date. The Corporation expects to retroactively apply the historical cost model for property, plant and equipment and investment property on the transition date.

### *2. Employee Benefits*

In accordance with IAS 19, "Employee Benefits", an entity may elect to use a "corridor" approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. Alternatively, an entity may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses, recognized after the transition date. The Corporation currently plans to elect to recognize all cumulative actuarial gains and losses that existed at the transition date in retained earnings for all of the Corporation's employee benefit plans.

### *3. Cumulative Translation Differences*

Retrospective application of IFRS would require the Corporation to determine cumulative currency translation differences in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", from the date a foreign subsidiary or associate was formed or acquired. IFRS 1 allows an entity to elect not to calculate the translation difference retrospectively. Where this election is made, the cumulative translation balance for all foreign operations is set to zero at the transition date. The Corporation expects to elect not to retrospectively calculate the cumulative translation balances, so all of these balances will be reset to zero on the transition date.

## **Risks and Uncertainties**

The Corporation's risks and uncertainties, except as noted below, have not materially changed from those described in the Corporation's annual filings.

### *Unions*

As reported in the Corporation's 2009 Annual Report, the Captains and Chief Engineers of the Corporation's domestic dry-bulk fleet filed an application to be recognized as a union. The Corporation opposed the application and a hearing was held before the Canadian Industrial Relations Board (CIRB) in the first quarter of 2010. On April 9, 2010 the Corporation received notice from the CIRB that they had granted the application for the unionization of the Corporation's domestic dry-bulk Captains and Chief Engineers.

It is not expected that this decision will have a material financial impact on the Corporation as it is expected the terms and conditions of the collective agreement will be similar to the current compensation structure for this group.

The Corporation is currently assessing its options in relation to the CIRB Decision.

# ALGOMA CENTRAL CORPORATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Transactions with Related Parties

There were no transactions with related parties for the three month periods ended March 31, 2010 and 2009.

### Contractual Obligations

The table below provides aggregate information about the Corporation's contractual obligations at March 31, 2010 that affects the Corporation's liquidity and capital resource needs.

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Repayment of long-term debt	\$ 6,000	\$ 119,664	\$ 6,000	\$ 6,000	\$ 137,664
Capital asset commitments	71,130	63,222	-	-	134,352
Other commitments	250	500	500	1,250	2,500
<b>Total</b>	<b>\$ 77,380</b>	<b>\$ 183,386</b>	<b>\$ 6,500</b>	<b>\$ 7,250</b>	<b>\$ 274,516</b>

The capital asset commitments included above consist primarily of:

- Construction of three 16,500 deadweight petroleum product tankers at Jiangxi Jiangzhou Union Shipbuilding Ltd. in China. These vessels are expected to be delivered in early to mid 2011 and have remaining commitments of approximately \$61,654.
- Construction of one maximum Seaway sized self-unloading vessel at Chengxi Shipyard in China. The Corporation's share of the remaining commitments for this vessel, which is expected to be delivered in early 2011, is approximately \$13,096.
- Construction of two 25,000 deadweight petroleum product tankers at Nangtong Mingde Shipyard in China. These vessels are expected to be delivered in early to mid 2011 and have remaining commitments of approximately \$57,349.

# ALGOMA CENTRAL CORPORATION

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars except per share figures)

Unaudited

	Three Months Ended March 31	
	2010	2009
Revenue	\$ 57,844	\$ 60,435
Expenses		
Operations	92,206	101,247
General and administrative	6,812	7,548
	99,018	108,795
Loss from operations before the following:	(41,174)	(48,360)
Amortization on capital assets	(9,108)	(9,355)
Financial	(1,006)	(917)
Net gain (loss) on translation of foreign denominated assets and liabilities	681	(189)
Loss before income tax recovery and non-controlling interest	(50,607)	(58,821)
Income tax recovery	9,238	12,624
Loss of non-controlling interest	24,432	27,744
Net loss	(16,937)	(18,453)
Retained earnings, beginning of period	429,476	398,723
Dividends	(1,751)	(1,751)
Refundable dividend taxes	(256)	278
Retained earnings, end of period	\$ 410,532	\$ 378,797
Loss per share	\$ (4.35)	\$ (4.74)

See accompanying notes to the consolidated financial statements.

# ALGOMA CENTRAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

As at March 31, 2010 and December 31, 2009

(In thousands of dollars)

Unaudited

	March 31 2010	December 31 2009
<b>Assets</b>		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 11,753	\$ 12,156
Accounts receivable	23,822	64,589
Materials and supplies	11,449	11,087
Prepaid expenses	4,864	4,334
Current portion of future income taxes	11,489	-
Income taxes recoverable	11,203	12,057
	74,580	104,223
Capital Assets	578,188	578,596
Employee Future Benefits	11,114	11,487
	\$ 663,882	\$ 694,306
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued charges	\$ 53,869	\$ 55,843
Current portion of future income taxes	-	17,409
Advances and net profits due to non-controlling interest	7,138	28,753
Dividends payable	797	772
Current portion of long-term debt (Note 4)	4,232	4,232
	66,036	107,009
Future Income Taxes	46,272	29,557
Long-Term Debt (Note 4)	128,183	108,721
Other Liabilities	10,312	10,286
Contingencies	-	-
	250,803	255,573
<b>Shareholders' Equity</b>		
Share Capital	8,319	8,319
Contributed Surplus	11,917	11,917
Accumulated Other Comprehensive Loss (Note 5)	(17,689)	(10,979)
Retained Earnings	410,532	429,476
	413,079	438,733
	\$ 663,882	\$ 694,306

See accompanying notes to the consolidated financial statements.

# ALGOMA CENTRAL CORPORATION

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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	Three Months Ended March 31	
	2010	2009
Net Loss	\$ (16,937)	\$ (18,453)
Other Comprehensive (Loss) Earnings		
Unrealized (loss) gain on translation of financial statements of foreign self-sustaining operations	(6,918)	7,229
Unrealized gain on hedged instruments, net of tax of \$103 and \$78	208	137
	(6,710)	7,366
Comprehensive Loss	\$ (23,647)	\$ (11,087)

See accompanying notes to the consolidated financial statements.

# ALGOMA CENTRAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

	Three Months Ended March 31	
	2010	2009
Net (Outflow) Inflow of Cash Related To The Following Activities		
Operating		
Net loss	\$ (16,937)	\$ (18,453)
Items not affecting cash		
Amortization	9,549	9,355
Future income taxes	(12,183)	(30,043)
Loss of non-controlling interest	(24,432)	(27,744)
Net (gain) loss on translation of foreign denominated assets and liabilities	(681)	189
Other	101	(369)
	(44,583)	(67,065)
Net change in non-cash operating working capital	39,886	63,076
	(4,697)	(3,989)
Investing		
Additions to capital assets	(17,666)	(15,548)
Other	-	(101)
	(17,666)	(15,649)
Financing		
Net contributions from non-controlling interest	2,970	7,852
Proceeds from long-term debt	22,396	21,164
Repayment of long-term debt	(1,500)	(1,500)
Dividends paid	(1,692)	(1,688)
	22,174	25,828
(Loss) gain on cash held in foreign currency	(214)	423
Net change in cash and cash equivalents for the period	(403)	6,613
Cash and cash equivalents, beginning of period	12,156	11,800
Cash and cash equivalents, end of period	\$ 11,753	\$ 18,413

See accompanying notes to the consolidated financial statements.

# **ALGOMA CENTRAL CORPORATION**

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For Three Months Ended March 31, 2010 and 2009**

(In thousands of dollars)

**Unaudited**

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### **1. Basis of Presentation**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of the interim periods presented. However, these interim financial statements do not include all of the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual audited financial statements. These interim financial statements should be read in conjunction with the most recent annual audited financial statements of the Corporation.

### **2. Quarterly Fluctuations and Seasonality**

The nature of the Corporation'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 much 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, the first quarter revenues and earnings are lower than the remaining quarters in the year.

With the exception of the significant repair and maintenance costs incurred in the first quarter, the fluctuations and seasonality of the quarterly earnings has become less of a factor in recent years due to the product tanker and ocean-going fleets operating year round, a somewhat longer season for the domestic dry-bulk fleet and the increase in our real estate portfolio.

### **3. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash balances with banks and investments in short term-deposits with maturities of less than 90 days.

# ALGOMA CENTRAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

### 4. Long-Term Debt

The long-term debt at March 31, 2010 and December 31, 2009 consists of the following:

	March 31 2010	December 31 2009
Secured non-revolving term loan, due October 20, 2014, interest fixed at 5.90%	\$ 9,500	\$ 10,000
Secured non-revolving term loan, due October 20, 2016, interest fixed at 5.02% to May 30, 2013	26,500	27,500
Secured revolving loans, due November 3, 2011		
Direct loans, interest at prime plus 3.00%	-	1,191
Canadian B.A. rate plus 3.50%	23,500	-
Secured non-revolving term loans, due November 3, 2011.		
Canadian B.A. rate plus 3.50%	35,500	35,500
U.S. \$42,000, LIBOR plus 3.50% (2009 U.S. \$42,180)	42,664	44,310
	137,664	118,501
Less unamortized financing expenses	5,249	5,548
	132,415	112,953
Current portion	4,232	4,232
	\$ 128,183	\$ 108,721

The Corporation maintains credit facilities that are reviewed periodically to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facilities at March 31, 2010 were \$296,000 consisting of \$60,000 in a revolving facility and \$236,000 in three non-revolving term facilities. At March 31, 2010, the Corporation had \$155,218 available in existing credit facilities.

The unamortized financing costs relate primarily to costs incurred on the secured non-revolving term credits and are being amortized over the remaining terms using the effective yield method.

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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### 5. Accumulated Other Comprehensive Loss

The accumulated other comprehensive loss balances are as follows:

	March 31 2010	December 31 2009
Unrealized loss on translation of financial statements of foreign self-sustaining operations	\$ (16,494)	\$ (9,576)
Unrealized losses on hedged instruments, net of income tax recovery of \$588 and \$691	(1,195)	(1,403)
	<u>\$ (17,689)</u>	<u>\$ (10,979)</u>

### 6. Employee Future Benefits

The net benefit expense recognized for the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31	
	2010	2009
Pension plans	\$ 603	\$ 520
Other benefit plans	225	204
	<u>\$ 828</u>	<u>\$ 724</u>

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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### 7. Supplementary Cash Flow Information

	Three Months Ended March 31	
	2010	2009
Interest paid	\$ 1,968	\$ 1,102
Income taxes paid	\$ 4,276	\$ 735

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### 8. Capital Disclosures

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

- Provide sustained growth of shareholder value by earning returns on capital employed in the 10% to 12% range.
- Maintain a strong capital base to ensure investor, creditor and market confidence and to sustain future growth. In this regard, the Corporation will target to maintain a long-term debt to equity ratio of no greater than one to one. The Corporation 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.

Included in capital employed are shareholders' equity and long term-debt including the current portion.

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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### 8. Capital Disclosures *(continued)*

The Corporation's Board of Directors annually reviews the return on capital employed target and also reviews on a quarterly basis the level of dividends to be paid to the Corporation's shareholders.

The Corporation is also subject to financial covenants in its credit agreements that are measured on a quarterly basis. The Corporation is in compliance with all financial covenants.

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

The debt to shareholders' equity ratio at March 31, 2010 and December 31, 2009 is as follows:

	March 31 2010	December 31 2009
Total long-term debt	\$ 137,664	\$ 118,501
Shareholders' equity	\$ 413,079	\$ 438,733
Debt to shareholders' equity ratio	0.33 to 1	0.27 to 1

### 9. Financial Instruments and Risk Management

#### *Financial Instruments*

The Corporation's financial instruments that are included in the Consolidated Balance Sheets are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, long-term debt and the advance and profits due to the non-controlling interest. Financial instruments are classified on a basis consistent with the 2009 annual audited financial statements.

#### *Fair value*

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued charges approximates their carrying values due to their short-term maturity. The fair value of the amount due to the non-controlling interest approximates its carrying value as the interest rate approximates current market rates for similar debt. The fair value of long-term debt including the current portion is approximately \$139,446 compared to the carrying value of \$137,664 due to the difference in the rates in the interest rate swap agreements when compared to current market rates for similar instruments with similar terms.

The fair values include cash and cash equivalents (Level 1) of \$11,753, derivative assets (Level 2) of \$197 and derivative liabilities (Level 2) of \$1,782 as of March 31, 2010.

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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### 9. Financial Instruments and Risk Management *(continued)*

#### *Derivative financial instruments*

The Corporation utilizes interest rate swap agreements on certain term debt instruments to manage risks associated with interest rate movements.

The Corporation also utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet.

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

#### ***Risk Management and Financial Instruments***

The Corporation is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as of March 31, 2010.

#### *Credit risk*

The Corporation's principal financial assets are cash and cash equivalents and accounts receivable.

Cash is denominated primarily in Canadian and U.S. dollars. Cash and cash equivalents are made up of the following:

	Base currency	Canadian equivalent
Canadian dollar balances	\$ 2,184	\$ 2,184
U.S. dollar balances	\$ 9,383	\$ 9,569

Canadian dollar cash and cash equivalents are held primarily with a major Canadian financial institution and the risk of default of this institution is considered remote. Cash balances outside of Canada are also held with major financial institutions and are generally kept to a minimum. The U.S. dollar balances relate primarily to the working capital requirements of foreign subsidiaries and commercial arrangements.

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from customers. The maximum exposure to credit risk is represented by the carrying value of accounts receivable on the balance sheet.

# **ALGOMA CENTRAL CORPORATION**

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For Three Months Ended March 31, 2010 and 2009**

(In thousands of dollars)

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### **9. Financial Instruments and Risk Management** *(continued)*

The Corporation believes that the credit risk for accounts receivable is limited due to the following reasons:

- 87% of accounts receivable has been outstanding for 60 days or less; of which 79% are current.
- The Corporation has in recent history recorded minimal bad debts;
- The customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies; and,
- Credit reviews are performed prior to extending credit and reviewed on an on-going basis.

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 March 31, 2010 and 2009 was not material.

#### *Liquidity risk*

The cash and cash equivalents on hand, expected cash from operations and existing credit facilities will allow the Corporation to meet its planned operating and capital requirements and other contractual obligations.

The Corporation maintains credit facilities that are reviewed periodically to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facilities at March 31, 2010 were \$296,000 consisting of \$60,000 in a revolving facility and \$236,000 in three non-revolving term facilities. At March 31, 2010, the Corporation had \$155,218 available in existing credit facilities.

Substantially all of the wholly owned vessels of the Corporation were given as collateral for the line of credit.

# ALGOMA CENTRAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

### 9. Financial Instruments and Risk Management *(continued)*

The contractual maturities of financial liabilities at March 31, 2010 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	\$ 53,859	\$ -	\$ -	\$ -	\$ 53,859
Dividends payable	797	-	-	-	797
Long-term debt	6,000	119,664	6,000	6,000	137,664
Advances and net profits due to non-controlling interest	7,138	-	-	-	7,138
Total	\$ 67,794	\$ 119,664	\$ 6,000	\$ 6,000	\$ 199,458

#### *Market risk*

##### (a) Fuel prices

The Corporation has fuel surcharge provisions in the vast majority of its contracts with customers. Accordingly, there is not a significant exposure to the volatility of fuel prices.

##### (b) Interest rate risk

At March 31, 2010, the Corporation did not have any significant cash flow exposure to interest rate movements for its bank loans. Two of the Corporation's term bank loans have interest rates that have been fixed through interest rate swap agreements expiring in 2013 and 2015. In addition to the term loans, the Corporation has an interest rate swap agreement on the U.S non-revolving loan of \$42,000 expiring on November 3, 2011. These bank loans with fixed interest rates represent 57% of the outstanding debt at March 31, 2010.

The fair values of the interest rate swap contracts are based on amounts quoted by the Corporation's bankers to settle the contracts at a point in time. At March 31, 2010, the interest rate swap agreements had a negative fair value of \$1,782. This amount has been recorded in the financial statements in accordance with the Corporation's hedge accounting policy.

The Corporation is subject to cash flow interest rate risk with respect to its secured revolving and Canadian dollar denominated non-revolving loans.

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of dollars)

Unaudited

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### 9. Financial Instruments and Risk Management *(continued)*

#### (c) Foreign currency exchange risk

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

At March 31, 2010 and December 31, 2009, 36% and 35% respectively of the Corporation's total assets were denominated in U.S. dollars.

The Corporation is exposed to foreign currency fluctuations related to its net investment in self-sustaining foreign subsidiaries and long-term debt denominated in U.S. dollars. The Corporation does not hedge its investments in the subsidiaries as the currency positions are considered long-term in nature. At March 31, 2010, the net investment in U.S. dollar denominated self-sustaining foreign subsidiaries was U.S. \$205,767 and the foreign currency denominated long-term debt outstanding was U.S. \$42,000.

The Corporation has significant commitments due for payment in U.S. dollars and Euros. The Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building 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 Corporation mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt. The notional amount of the foreign exchange forward contracts at March 31, 2010 is Euro 3,405 and U.S. \$5,550. At March 31, 2010, the foreign exchange forward contracts had a positive fair value of \$197 and the embedded derivatives had an unfavourable fair value of \$197.

#### (d) Market sensitivity analysis (after income tax)

Based on the Corporation's estimates, a ten cent strengthening in the Canadian dollar relative to the U.S. dollar would increase annual net earnings by \$2,282.

Based on the balances at March 31, 2010:

- A ten cent strengthening in the Canadian dollar relative to the U.S. dollar would increase Other Comprehensive Earnings (Loss) by \$20,577.
- A ten cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total assets by \$23,608.
- A ten cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total liabilities by \$5,385.

# ALGOMA CENTRAL CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

### 9. Financial Instruments and Risk Management *(continued)*

- An increase in interest rates of 100 basis points (one percent) would reduce annual net earnings by \$404.

For a ten cent weakening in the Canadian dollar relative to the U.S. dollar and a decrease in interest rates of 100 basis points, there would be an equal and opposite impact to the amounts stated above.

### 10. Segment Disclosures

Algoma Central Corporation operates through four segments, Domestic Dry-Bulk, Product Tankers, Ocean Shipping and Real Estate.

The Corporation's earnings and assets by reportable segment for the three months ended March 31, 2010 and 2009 are as follows:

	Three Months Ended March 31	
	2010	2009
Operating (loss) earnings net of income tax		
Domestic Dry-Bulk	\$ (37,390)	\$ (41,587)
Loss of non-controlling interest <i>(Note 1)</i>	16,736	18,588
	(20,654)	(22,999)
Product Tankers	(90)	200
Ocean Shipping	3,138	3,885
Real Estate	523	1,110
	(17,083)	(17,804)
Not specifically identifiable to segments		
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities	681	(189)
Financial	(1,006)	(917)
Income tax recovery	471	457
	\$ (16,937)	\$ (18,453)

*Note 1* - The operating loss of the non-controlling interest is net of imputed income tax recovery.

# ALGOMA CENTRAL CORPORATION

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 2010 and 2009

(In thousands of dollars)

Unaudited

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### 10. Segment Disclosures *(continued)*

	At March 31	At December 31
	2010	2009
<b>Assets</b>		
Domestic Dry-Bulk	\$ 156,899	\$ 194,898
Product Tankers	261,146	259,986
Ocean Shipping	124,900	129,674
Real Estate	75,378	73,993
	618,323	658,551
Not specifically identifiable to segments		
Current assets	34,445	24,268
Other	11,114	11,487
	\$ 663,882	\$ 694,306

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### 11. Commitments

The Corporation, including its share of commitments in joint ventures, has commitments for capital asset purchases at March 31, 2010 of \$134,352 relating primarily to the purchase of five new product tankers and a maximum seaway size forebody. Approximately \$71,130 is due for payment over the last nine months of 2010 and \$63,222 is due in 2011.

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