ALGOMA CENTRAL CORPORATION

ANNUAL REPORT

2007

Algoma Central Corporation

Domestic Dry-Bulk		Product Tankers		Ocean Shipping		Real Estate
Seaway Marine Transport	**Fraser Marine & Industrial**	**Algoma Tankers**	**Algoma Tankers International Inc.**	**Algoma Shipping Inc.**	**Marbulk Canada Inc. Marbulk Shipping**	**Algoma Central Properties Inc.**
Dry-bulk pool of 35 vessels *2 under construction*	**Ship repair**	**Owns 4 domestic tankers** *2 under construction*	**Owns 1 foreign-flag tanker** *5 under construction*	**Owns 2 self-unloaders**	**Owns 5 self-unloaders**	**Sault Ste. Marie St. Catharines Waterloo**
59%	100%	100%	100%	100%	50%	100%

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About the Corporation

Algoma Central Corporation is the largest Canadian-flag ship owner on the Great Lakes-St. Lawrence Waterway.

Incorporated as Algoma Central Railway in Sault Ste. Marie, Ontario in 1899, the Corporation's executive offices are located in St. Catharines, Ontario. The Corporation employs approximately 1,400 people.

With assets of approximately $534 million, and revenue of approximately $581 million, the Algoma Central Corporation group includes Algoma Shipping Inc., Algoma Tankers, Algoma Tankers International Inc., Fraser Marine & Industrial, Algoma Central Properties Inc., and a share of Marbulk Canada Inc., and Seaway Marine Transport.

Algoma Central Corporation operates vessels throughout the Great Lakes-St. Lawrence Waterway from the Gulf of St. Lawrence, through all five Great Lakes. The Corporation owns 19 Canadian-flag dry-bulk vessels. The operational and commercial activities of the Canadian-flag dry-bulk fleet are managed by Seaway Marine Transport, a partnership with Upper Lakes Shipping Inc., an unrelated company. The Corporation also has an interest in one tug and one barge.

The Corporation, through a wholly-owned subsidiary, owns and manages the operational and commercial operations of four Canadian-flag tanker vessels. The Corporation also owns an additional foreign-flag tanker through a wholly-owned foreign subsidiary.

The Corporation also owns two ocean-going self-unloaders through a wholly-owned foreign subsidiary and has an interest through a joint venture in an ocean-going fleet of five self-unloaders. These vessels are part of a 29 vessel ocean-going self-unloader commercial arrangement, which is the largest of its type in the world.

The Corporation also provides diversified ship repair, diesel engine repair services and fabrication services to ship-owners and industrial customers throughout the Great Lakes-St. Lawrence Waterway.

The Corporation, through a wholly-owned subsidiary, also owns and manages commercial real estate properties in Sault Ste. Marie, St. Catharines and Waterloo, Ontario.

Financial Highlights

In thousands of dollars, except per share figures		**2007**		2006
For the year				
Revenue	$	**580,546**	$	547,993
Net earnings	$	**52,443**	$	42,059
Operating ratio *(Note 1)*		**84%**		84%
Cash flow from operations	$	**70,411**	$	82,013
Capital asset additions	$	**76,691**	$	66,154
Dividends paid per common share	$	**1.40**	$	1.30
Earnings per common share	$	**13.48**	$	10.81
At December 31				
Total assets	$	**533,508**	$	514,299
Shareholders' equity	$	**362,663**	$	333,514
Long-term debt (including current)	$	**13,825**	$	38,282
Long-term debt as a percentage of shareholders' equity		**4%**		11%
Common shares outstanding		**3,891**		3,891
Equity per common share	$	**93.21**	$	85.71

Note 1- Operating ratio is defined as operating expenses plus amortization as a percent of revenue.

Message to Shareholders

The year 2007 has turned out to be an extremely exciting and rewarding year for the Corporation.

We are pleased to report that record earnings of $52.4 million or $13.48 per share were achieved in 2007, an increase of 25% over the then record earnings for 2006 of $42.1 million or $10.81 per share. Consistent with the last few years, the Corporation continued to benefit from new capacity, strong market demand and high utilization in all business segments with our ocean shipping and domestic dry-bulk segments contributing the most significant increases to overall earnings.

All business segments, with the exception of product tankers, experienced revenue growth resulting in consolidated revenue increasing to $580.5 million, up 6% from the record consolidated revenue of $548.0 million achieved in 2006. The decline in product tanker revenue was due to the removal from service of the *Algonova*, the Corporation's last remaining single-hulled product tanker, in January 2007.

The benefit of the Corporation's diversification strategy has been highlighted over the last five years as record revenue and earnings levels continue to be achieved each year in spite of fluctuations in certain business segments over this period.

The Corporation's capital base continued its steady growth with shareholders' equity increasing to $362.7 million and long-term debt including the current portion reducing to $13.8 million. Financial returns on this capital base increased as well. Return on capital employed improved to 12.3% from 11.3% in 2006, mainly due to a combination of increased earnings and the use of cash resources to fund the 2007 capital expenditures. Return on equity improved to 14.5% from 12.6% in 2006.

Capital asset additions totalled $76.7 million during 2007. The capital asset additions were spread across all business units with the most significant expenditures relating to the progress payments for the *Honourable Henry Jackman*, construction deposits on four product tankers and on the *Algobay* and *Algoport* forebody projects and progress payments on the 25 Corporate Park development.

The Corporation's strong financial position continued to improve in 2007 with long-term debt including the current portion as a percentage of shareholder's equity declining to 4% from 11% at the end of 2006. Cash on hand and the 2007 cash flow from operations of $70.4 million or $18.10 per share were utilized to fund the 2007 capital asset additions, reduce long-term debt by $24.5 million and pay dividends to shareholders of $5.3 million.

The Corporation has made a number of significant announcements during the year related to the construction of new vessels, a new business venture and a new office building.

The Corporation currently has nine vessels on order or under construction and a new office building nearing completion. The total capital committed to these projects is approximately $340 million.

This level of capital expenditures is unprecedented in the history of the Corporation. A short summary of each of these projects follows:

- Construction of a three story commercial office building in Henley Corporate Park. This building, 25 Corporate Park Drive in St. Catharines, Ontario will be occupied by the end of the first quarter of 2008 and the final construction cost is expected to be $6 million.
- Construction of two 11,240 deadweight petroleum product tankers at Eregli Shipyard in Turkey. These vessels, the *Algonova* and *AlgoCanada,* are expected to join the Canadian-flag tanker fleet in the second half of 2008 and are expected to cost $41 million each.
- 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 late 2010 and early 2011 and are expected to cost $33 million each.
- Construction of two maximum Seaway sized self-unloading forebodies which will be attached to the refurbished and upgraded aft-ends of the *Algobay* and *Algoport* at Chengxi Shipyard in China. The completed vessels, which will be jointly owned with our partner in Seaway Marine Transport, are expected to be delivered in late 2009 and the third quarter of 2010, respectively. The Corporation's share of the total cost for these vessels is approximately $65 million.
- Construction of two 25,000 deadweight petroleum product tankers at Nangtong Mingde Shipyard in China. These vessels are expected to be delivered in August 2010 and April 2011 and are expected to cost $44 million each.

The three 16,500 deadweight product tankers and the two 25,000 deadweight product tankers will be operated and employed in a joint venture to be called Hanseatic Tankers. The other participants in Hanseatic Tankers are Bernhard Schulte, a German shipowner based in Hamburg, Germany, Sloman Neptun, a German shipowner based in Bremen, Germany and Intrepid Shipping, an American shipowner based in Stamford, Connecticut. The other partners of Hanseatic Tankers have ordered a series of sister ships from the same shipyards.

It is also expected that the *Amalienborg*, our 1998 built foreign flag product tanker, is expected to be employed in the same arrangement in late 2008. In anticipation of this, the vessel's name will be changed in March 2008 to *Algoma Hansa* in recognition of the German and Hanseatic connection in this newly formed joint venture.

Hanseatic Tankers plans to employ and operate eighteen 16,500 deadweight product tankers and six 25,000 deadweight product tankers. The main trading areas for these vessels are expected to be focused in Europe, the Mediterranean, the Middle East and Asia.

The Hanseatic Tankers joint venture will allow for further diversification of the Corporation within the global shipping industry.

In addition to the foregoing announced projects, the Corporation took delivery of the *Honourable Henry Jackman* from Chengxi Shipyard in China on July 19, 2007. Since its delivery and return to North America, the vessel has been trading as part of the CSL International consortium. The operational performance of the vessel has been excellent.

Included in the estimated cost of the two 11,240 deadweight product tankers and the *Algobay* and *Algoport* forebodies is an amount reflecting the 25% import duty that will be payable on each of these vessels. This 25% import duty is required to be paid if a vessel is constructed outside of Canada and imported into Canada as a Canadian-flag vessel. This is the case, in spite of the fact that there are no shipyards in Canada that have the capacity or facilities to build cost competitive new vessels.

The Corporation, in conjunction with other Canadian shipowners, has presented a proposal to the Canadian government regarding the immediate elimination of this 25% import duty for new vessels. We feel it is now time for the Federal government to show its support for the Canadian Marine industry, an industry that is the most environmentally friendly of all transportation modes.

The Corporation, in an effort to ensure that it remains proactive on the environmental front, commenced two new environmental initiatives in 2007.

The first initiative is the implementation of an ISO 14001 compliant Environmental Management System on our domestic product tanker fleet which is expected to be completed during 2008. This Environmental Management System will provide the framework for a structured approach to understanding and managing Algoma's impact on the environment. Through this process we can systematically identify environmental laws and other requirements that are relevant to us and manage aspects of our business that impact on the environment. We will be able to produce objectives for improvement and a management program to achieve them with regular reviews to measure continual improvement.

Both our domestic dry-bulk and product tanker fleets are involved in the "Green Marine" program. This initiative's objective is to implement a voluntary environmental improvement program in the areas of aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases, cargo residue and oily waters. The "Green Marine" program requires water transportation companies to implement specific best practices that will contribute to reducing the environmental impact of their business activities. Each company's performance will be rated on a scale of one to five, beginning with regulatory compliance and culminating in excellence and leadership. The results will be communicated annually to the general public in a "Green Marine" annual report.

We are generally optimistic regarding the expected results for 2008. The delivery of the *Algonova* and *AlgoCanada*, the two product tankers being constructed in Turkey, in the second half of 2008, will contribute to improved results for our product tanker fleet. We anticipate continued high utilization of all vessels in our domestic dry-bulk fleet in 2008 and look forward to improved operational performance. For 2008 the ocean shipping fleet is also expected to be fully employed other than the out-of-service time for two planned regulatory dry-dockings that will occur in the first quarter.

The Real Estate results in 2008 will be enhanced with the expected completion and tenant occupancy of 25 Corporate Park in St. Catharines late in the first quarter.

We look to the future beyond 2008 with confidence as we anticipate the delivery of the *Algobay* and *Algoport* forebodies in 2009/2010 and the delivery of the five product tankers into our new Ocean Product Tankers joint venture in 2010/2011.

The Corporation continues to be well positioned for further expansion as our financial position and future borrowing capabilities remain strong even after taking into consideration the already committed capital expenditures over the next four years. We continue to investigate further investment opportunities in keeping with the Corporation's growth and diversification strategy.

Each business segment has a strategic plan that incorporates the fundamental goal of continuous improvement in key areas such as operational excellence, customer service, competitiveness, environmental management and financial returns to the shareholders. Each also has a more specific goal regarding the achievement of a safe and secure workplace that is accident and spill-free.

A key strength is our dedicated and highly-skilled employees who demonstrate daily their commitment to achieving the Corporation's goals while being guided by the shared values of integrity, responsibility, respect, leadership and team work.

Our employees are active in making our communities a better place to live as is evident by their ongoing commitment to the United Way program, two cancer fundraising initiatives, Run for the Cure and Relay for Life and other community causes. We are proud of all our employees who have made a difference in the communities in which we live and work.

We thank our employees, valued customers and key stakeholders for their contribution towards making 2007 a record year for both revenue and earnings and we look forward to their continued support.

We also wish to express gratitude to our Board of Directors who provide strong leadership and guidance in overseeing the direction and governance of Algoma Central Corporation.

On February 29, 2008, after 31 years with the Corporation, the last seven as President and Chief Executive Officer, Mr. Tim Dool announced that he will retire from these positions after the Corporation's Annual Meeting on April 30, 2008.

During Mr. Dool's seven year tenure as President and Chief Executive Officer, the Corporation's revenue increased by 51%, capital assets grew by 23% and net earnings increased by 60%. The Board is pleased to note that Mr. Dool will continue as a Director of the Corporation and as a valued advisor to the Board and Management.

Upon the retirement of Mr. Dool, Greg Wight, Executive Vice President and Chief Financial Officer, will be appointed President and Chief Executive Officer. Mr. Wight joined the Corporation in 1980 and has been a Vice President since 1996.

Tim S. Dool

President and Chief Executive Officer

Radcliffe R. Latimer

Chairman of the Board

Management's Discussion and Analysis

General

Algoma Central Corporation operates through four segments; domestic dry-bulk, product tankers, ocean shipping and real estate.

This Management's Discussion and Analysis of Algoma Central Corporation should be read in conjunction with its consolidated financial statements for the years ending December 31, 2007 and 2006 and related notes thereto, and has been prepared as at February 29, 2008.

This Management's Discussion and Analysis has been prepared by reference to the disclosure requirement established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on Algoma Central Corporation, including its annual information form, is available on the Corporation's website at www.algonet.com and the SEDAR website at www.sedar.com.

The accounting principles used by Algoma Central 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. The reporting currency used is the Canadian dollar 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 on pages 19 to 22 in this report.

Use of Non-GAAP Measures

The following summarizes non-GAAP financial measures utilized in the Management's Discussion and Analysis. As there is no generally accepted method of calculating these financial measures, they may not be comparable to similar measures reported by other corporations.

Return on capital employed refers to earnings before financial expense and gains or losses on the translation of foreign-denominated assets and liabilities, on an after-tax basis, and expressed as a percentage of average capital. Capital is long-term debt including the current portion plus shareholders' equity. The Corporation uses return on capital employed to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders.

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

EBITA refers to earnings before interest, taxes and amortization. EBITA is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles. EBITA is not intended to represent cash flow from operations, as defined by Canadian GAAP, and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by GAAP. The Corporation's EBITA may also not be comparable to EBITA used by other corporations which may be calculated differently. The Corporation considers EBITA to be a meaningful measure to assess its operating performance in addition to GAAP measures. It is included because the Corporation believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business.

Overall Performance

In 2007, the Corporation is reporting net earnings of $52,443 compared to net earnings of $42,059 for 2006. The increase in net earnings was primarily due to improved earnings for the ocean shipping and the domestic dry-bulk segments, a reduction in amortization expense, an increase in net foreign exchange gains and a reduction in income tax expense.

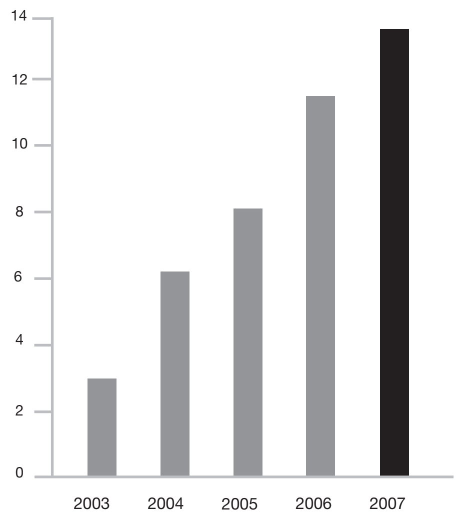
The improved earnings for the ocean shipping segment was largely a result of fewer out-of-service days in 2007 compared to 2006 due to reduced planned regulatory dry-dockings, the addition of the *Honourable Henry Jackman* which entered service on August 1, 2007 and strong earnings from positioning cargos for two vessels going to and one vessel returning from scheduled regulatory dry-dockings in China.

Improved earnings for the domestic dry-bulk segment were due mainly to improved revenue levels including increased fuel surcharge recoveries.

The reduction in amortization expense is related to an increase in the remaining estimated lives of certain domestic dry-bulk vessels and to an ocean vessel.

Earnings Per Share

(IN DOLLARS)



The increase in net foreign exchange gains was due primarily to the strengthening of the Canadian dollar against the U.S. dollar during 2007 and the reduction in income tax expense was due primarily to the announcement by the Canadian government concerning future corporate income tax rate reductions.

The operating results for the product tanker segment decreased due primarily to fewer operating days as a result of the sale of the *Algonova* in January 2007 and higher operating expenses largely as a result of a planned regulatory dry-docking in 2007. The results for the real estate segment for 2007 remained at approximately the same level as the year before.

Earnings per common share in 2007 were $13.48 compared to $10.81 for 2006. The 2007 earnings per share when compared to earnings of prior years before any unusual items were the highest on record for the Corporation.

Cash flow from operations in 2007 was $70,411 and for 2006 it was $82,013. The decrease in cash flow was a result of more cash consumed by working capital. Despite the decrease in 2007, the strong cash flow permitted the Corporation to fund most of the capital expenditures and dividends to shareholders incurred in both years from this cash flow and at the same time were able to reduce long-term debt and also maintain significant cash balances for future growth. Long-term debt including the current portion totalled $13,825 at December 31, 2007 and $38,282 at December 31, 2006. Cash and cash equivalents totalled $28,132 at December 31, 2007 compared to $55,245 at the end of 2006.

Selected Annual Information

		2007		2006		2005
For year ended December 31						
Revenues	$	**580,546**	$	547,993	$	508,993
Earnings from continuing operations	$	**52,443**	$	41,575	$	30,856
Earnings per common share from continuing operations	$	**13.48**	$	10.69	$	7.93
Net earnings	$	**52,443**	$	42,059	$	31,476
Earnings per common share	$	**13.48**	$	10.81	$	8.09
At December 31						
Total assets	$	**533,508**	$	514,299	$	469,801
Total long-term financial liabilities	$	**30,208**	$	48,343	$	56,120

Total assets increased marginally in 2007 by $19,209, primarily due to an increase in net capital assets of $27,749. The increase was due for the most part to the remaining payments on a new ocean self-unloading vessel and deposits made during the year on vessels under construction. This increase in capital assets was partially offset by amortization expense for the year. Current assets decreased by $8,583 due mostly to a decrease in cash and cash equivalents partially offset by an increase in accounts receivable.

Long-term financial liabilities, which consist of long-term debt including the current portion and amounts advanced from the minority interest, decreased by $18,135 in 2007 due primarily to a reduction in long-term debt. The repayment of long-term debt was achieved principally by the Corporation’s share of Marbulk Canada Inc.’s debt repayment in full as a result of their strong cash flow in 2007 and the repayment in full of a mortgage on one of the real estate segment’s commercial properties. The repayments of long-term debt were partially offset by an increase in debt relating to the additional financing provided to the Seaway Marine Transport partnership by the minority interest.

Results of Operations

Earnings from continuing operations for 2007 were $52,443 as compared to $41,575 for 2006.

The increase in earnings from continuing operations was mainly attributable to the following factors:

- Improved earnings for the ocean shipping segment due mainly to fewer out-of-service days in 2007 compared to 2006 due to reduced planned regulatory dry-dockings, the addition of the *Honourable Henry Jackman* which entered service on August 1, 2007 and strong earnings from positioning cargos for two vessels going to and one vessel returning from scheduled regulatory dry-dockings in China.
- Improved earnings for the domestic dry-bulk segment due mainly to improved revenue levels including increased fuel surcharge recoveries.
- A reduction in amortization expense due to changes in the remaining estimated lives of certain domestic dry-bulk assets and to an ocean vessel.
- Net foreign exchange gains due to the strengthening of the Canadian dollar against the U.S. dollar partially offset by exchange losses on a return of capital from a foreign subsidiary and realized exchange losses on the wind-up of certain other foreign subsidiaries.

- Gains realized on the disposal of two vessels and a gain from the proceeds relating to an insurance claim for a damaged engine on one of the domestic dry-bulk vessels.

The above increases in net earnings were partially offset with the decrease in operating earnings of the product tanker fleet due mostly to fewer operating days as a result of the sale of the *Algonova* in January 2007 and higher operating expenses largely as a result of a planned regulatory dry-docking in 2007.

Earnings from continuing operations by segment are as follows:

		2007		2006
Operating earnings net of income tax				
Domestic Dry-Bulk	$	**18,474**	$	15,224
Product Tankers		**11,590**		14,553
Ocean Shipping		**15,685**		10,837
Real Estate		**4,827**		5,040
		50,576		45,654
Earnings of minority interest *(Note 1)*		**(5,894)**		(4,918)
Not specifically identifiable to segments				
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities		**3,493**		(566)
Financial expense		**(1,463)**		(2,417)
Income tax		**5,731**		3,822
	$	**52,443**	$	41,575

Note 1 - The earnings of the minority interest are net of imputed income tax expense.

Revenues

Revenue by business segment is as follows:

		2007		2006
Domestic Dry-Bulk	$	**413,398**	$	400,461
Product Tankers		**78,719**		79,832
Ocean Shipping		**64,793**		44,813
Real Estate		**23,636**		22,887
	$	**580,546**	$	547,993

Revenues were $580,546 for the year ended December 31, 2007 compared to $547,993 in 2006.

Revenues of the domestic dry-bulk fleet increased by $12,937 or 3% due mostly to increased fuel cost recoveries.

The decrease in the revenue in the product tanker segment was due largely to the fewer operating days in 2007 as a result of the sale of the *Algonova* in January 2007. This decrease was partially offset by an increase in revenue of the *Amalienborg* which operated for the full year in 2007 compared to 255 days after being acquired in 2006.

Ocean shipping segment revenues increased by $19,980 due largely to fewer out-of-service days in 2007 compared to 2006 due to reduced planned regulatory dry-dockings, the addition of the *Honourable Henry Jackman* which entered service on August 1, 2007 and the revenue from positioning cargos for two vessels going to and one vessel returning from scheduled regulatory dry-dockings in China.

The real estate revenue increase is attributable to higher rental rates, increases in recoverable costs due from tenants and the first full year of owning 100% of 412 Albert Street, Waterloo. The real estate segment acquired the remaining 50% of the property not previously owned by the Corporation in August 2006.

Operating Expenses

The operating expenses by business segment are as follows:

		2007		2006
Domestic Dry-Bulk	$	**347,789**	$	341,817
Product Tankers		**51,877**		49,172
Ocean Shipping		**42,050**		29,474
Real Estate		**13,702**		13,000
	$	**455,418**	$	433,463

Operating expenses were $455,418 for the year ended December 31, 2007 compared to $433,463 in 2006. The increase in operating expenses of $21,955 or 5% was due primarily to additional operating days in both the domestic dry-bulk and the ocean shipping segments and a planned regulatory dry-docking in the product tanker segment.

General and Administrative

General and administrative expenses were $24,675 for the year ended December 31, 2007 compared to $21,450 for the year before, an increase of $3,225 or 15%.

The increase was due to adding personnel to assist with the management of the growing Corporation and to enhance succession planning. In addition to the above, the general and administrative expense increase was also a result of higher expenses relating to employee future benefits.

Amortization

Amortization expense was $29,432 for the year ended December 31, 2007 compared to $29,163 in 2006.

Net amortizable assets added during 2007 increased amortization by $2,438. This increase in amortization was largely offset by the decrease in amortization of $2,169 for the change made in 2007 in the estimated remaining lives of certain capital assets.

Financial Expense

Financial expense includes non-capitalized interest on borrowings less interest earned on cash and cash equivalents. In 2007, financial expense was $1,463 compared to $2,417 for the prior year. The decrease is primarily a result of additional interest income of $780 on higher average cash and cash equivalents balances throughout 2007 when compared to 2006.

Interest on borrowings increased in 2007 by $310, of which $484 was capitalized, largely as a result of new borrowings during the year to finance the construction of the *Honourable Henry Jackman* and for deposits made on the new product tankers. These borrowings were subsequently repaid during the year. In addition, the Corporation's share of Marbulk Canada Inc. debt was completely repaid during 2007 along with the repayment in full of a mortgage on one of the real estate segment's commercial properties.

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

The Corporation recognized net foreign exchange gains of $3,493 in 2007 compared to losses of $566 in 2006. Exchange gains during the year, totalled $6,864 and were a result of the translation to Canadian dollars of the Corporation's net liabilities that are denominated in U.S. dollars. The gains in the year included realized gains as a result of the Corporation converting in November 2007 all of its U.S. dollar denominated debt to Canadian dollar debt.

Partially offsetting these exchange gains were exchange losses in the amount of $3,371 realized on a return of capital from a foreign subsidiary and the realized exchange losses on the wind-up of certain other foreign subsidiaries.

Income Tax Provision

The income tax provision was $11,480 for the year ended December 31, 2007 compared to $11,744 in 2006. Included in both 2007 and 2006 were decreases of $5,570 and $3,157 respectively, in income tax expense due to the announcements by the Canadian government to reduce in the future the corporate income tax rate.

The effective income tax rate for 2007 was 15.7% compared to an effective rate of 19.3% for 2006. The Canadian statutory income tax rate for the Corporation for 2007 and 2006 was 35.4%.

The variation in the effective income tax rate from the statutory income tax rate in both 2007 and 2006 was due primarily to lower income tax rates of certain foreign subsidiaries and the reduction in the income tax provision in both 2007 and 2006 due to the future decrease in the Federal corporate income tax rate.

Minority 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 with those of Upper Lakes Shipping Inc., another Canadian ship owner, in the partnership.

The earnings of minority interest in the amount $9,128 for the year ended December 31, 2007 compared to $7,615 in 2006 represent the Upper Lakes Shipping Inc. proportionate share of earnings in the Seaway Marine Transport partnership.

Discontinued Operations

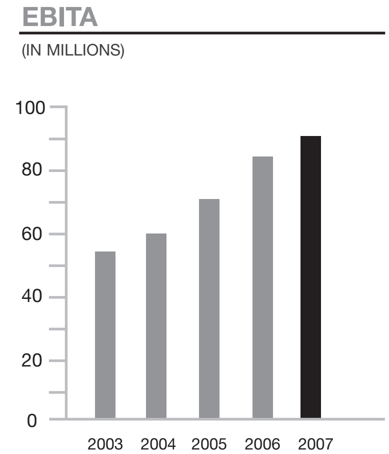
Discontinued operations consist of two tugs and a barge that were sold in 2006 and have separately identifiable cash flows. The capital assets were sold due to adverse market conditions.

For financial statement reporting purposes, the results of operations and the related carrying values have been shown as discontinued operations.

Comprehensive Earnings

Comprehensive earnings are composed of the Corporation's net earnings and other comprehensive earnings. Other comprehensive earnings of the Corporation include unrealized gains and losses on the foreign currency translation of the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges that are effective.

As of December 31, 2007 the Corporation had in its Shareholders' Equity an "Accumulated Other Comprehensive Loss" balance of $19,840 compared to a loss of $3,035 at December 31, 2006. The Accumulated Other Comprehensive Loss balance consists of the unrealized losses on translation of financial statements of foreign self-sustaining operations and net unrealized losses on hedged instruments. The increase in the loss during 2007 is due primarily to the strengthening of the Canadian dollar against the U.S. dollar. A significant portion of the Corporation's assets are denominated in U.S. dollars. At December 31, 2007 and 2006, 29% and 25% respectively of the Corporation's total assets were denominated in U.S. dollars.



The unrealized losses would be reversed with a weakening of the Canadian dollar against the U.S. dollar. The losses will only be realized if a foreign self-sustaining subsidiary is disposed of or U.S. cash is returned to Canada as a return of capital.

EBITA

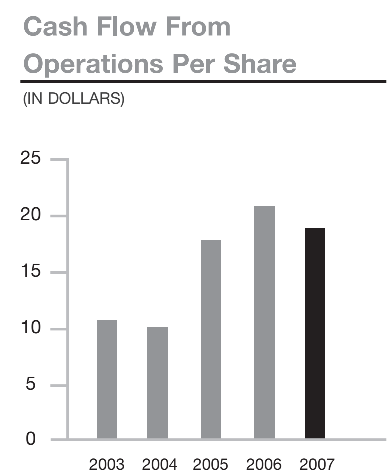
EBITA in 2007 totalled $89,997 compared to $84,041 in 2006. The primary reasons for the increase of $5,956 have been previously reviewed in this Management's Discussion and Analysis.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

	2007	2006	Change
Earnings from continuing operations	$ **52,443**	$ 41,575	$ 10,868
Cash provided from continuing operations before changes in working capital	$ **80,594**	$ 78,355	$ 2,239
Cash provided from continuing operations after changes in working capital	$ **70,411**	$ 82,013	$ (11,602)
Cash used in investing activities	$ **72,447**	$ 67,531	$ 4,916
Cash used in financing activities	$ **23,449**	$ 15,313	$ 8,136

Cash Provided from Operating Activities



Cash provided from continuing operations in 2007 was $70,411 compared to $82,013 in 2006. The decrease in cash flow in 2007 when compared to 2006 of $11,602 was due primarily to cash consumed by operating working capital in the amount of $13,841.

Increases in accounts receivable of $17,470 was due largely to higher activity in December 2007 of the domestic dry-bulk fleet and the ocean shipping segment, and to the increase in certain customers' balances at the end of the current year when compared to the prior year. This use of cash was partially offset with an increase in cash from operations due to better earnings.

Cash Used in Investing Activities

Cash used in investing activities increased from $67,531 in 2006 to $72,447 in 2007, principally due to an increase in additions to capital assets of $9,104. Cash used to acquire capital additions in 2007 totalled $74,803 compared to $65,699 in 2006.

In 2007, significant additions to capital assets included the addition to the *Honourable Henry Jackman* for $23,319, deposits on new product tankers in the amount of $17,901, the Corporation's share of progress payments for two new domestic dry-bulk self-unloading vessels of $8,002, a new engine for the *Algoville* for $8,341, life extension improvements to the domestic dry-bulk vessels *John B. Aird* and the *Algolake* for $9,030 and payments of $3,769 for a new office building in St. Catharines.

In 2006, significant additions to capital assets included the purchase of a new product tanker, the *Amalienborg* for $30,557, progress payments for the *Honourable Henry Jackman* of $25,787 and the acquisition for $2,481 of a 50% interest from a joint venture partner in an office building in Waterloo.

Cash Provided by or Used in Financing Activities

Cash used in financing activities in 2007 was $23,449 versus $15,313 in 2006. Proceeds from long-term debt in 2007 increased to $40,779 from $6,709 in 2006 due primarily to financing requirements for the construction of the *Honourable Henry Jackman*. Repayments on long-term debt in 2007 totalled $57,621 and $9,418 in 2006. The 2007 repayments included the Corporation's share of Marbulk Canada Inc. debt, payment in full of a mortgage on one of the real estate segment's commercial properties and the payment of the amount borrowed for the construction of the *Honourable Henry Jackman*.

Dividends were paid in both years to shareholders at a rate of $1.40 in 2007 and $1.30 in 2006 per common share, totalling $5,316 in 2007 and $4,935 in 2006.

Capital Resources

Capital resources at December 31, 2007 include cash and cash equivalents of $ 28,132.

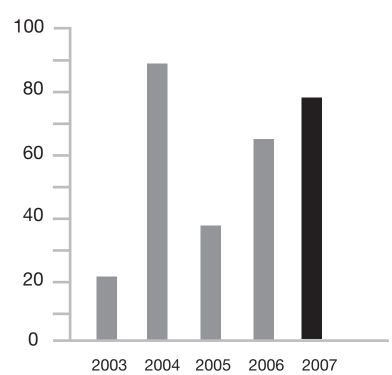
Investments in capital assets in 2008 are expected to be approximately $114,025, a substantial increase from the $76,691 invested in 2007. The most significant capital asset outlays in 2008 relate to the purchase of two new product tankers in the amount of $76,310, progress payments of $22,215 on five additional product tankers under construction and $14,223 for the Corporation's share of the progress payments relating to the construction of two new domestic dry-bulk self-unloading vessels.

The cash and cash equivalents on hand, expected cash from operations in 2008 and existing credit facilities will allow the Corporation to meet its planned operating and capital requirements and other contractual obligations for 2008.

The Corporation continues to be well positioned for further expansion as our financial position and future borrowing capabilities remain strong even after taking into consideration the already committed capital expenditures over the next four years.

Capital Asset Additions

(IN MILLIONS)



Contingencies

For information on contingencies, please refer to Note 21 of the consolidated financial statements.

Transactions with Related Parties

There were no transactions with related parties in 2007 or 2006.

Fourth Quarter 2007

The Corporation is reporting net earnings for the three months ended December 31, 2007 of $26,077 compared to $18,680 for the same period in 2006. This increase in net earnings of $7,397 was due primarily to the following:

- An improvement in earnings of the ocean shipping segment as a result of fewer out-of-service days in 2007 compared to 2006 due to reduced planned regulatory dry-dockings, the addition of the *Honourable Henry Jackman* which entered service on August 1, 2007 and strong earnings from a positioning cargo for a vessel going to a scheduled regulatory dry-docking in China.
- A reduction income tax expense due to lower future corporate income tax rates.

These increases were partially offset by a reduction in the earnings of the domestic dry-bulk segment due to increased operating expenses and a reduction in the earnings of the product tanker segment from fewer operating days largely as a result of the sale of the *Algonova* earlier in the year.

Refer to the Corporation's news release announcing fourth quarter results dated February 29, 2008 which can be accessed from the SEDAR website at www.sedar.com or the Corporation's website at www.algonet.com.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 2 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 Corporation's financial position or results of operations.

Employee Future Benefits

The Corporation provides pensions and post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Corporation's consolidated financial statements, the most significant of which are the discount rate, the rate of increase of 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. 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 12 to the consolidated financial statements. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Corporation's employee benefit obligations and future expense.

Capital Assets

The Corporation reviews on a regular basis the amortization periods of capital assets for changes in estimated useful lives.

Change in Accounting Policies

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Corporation adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 1530, Comprehensive Income; Section 3251, Equity and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments. The comparative consolidated financial statements have not been restated except for the presentation of unrealized foreign exchange losses on the translation of self-sustaining foreign operations. The principal changes in the accounting for financial instruments and hedging relationships due to the adoption of these accounting standards are described below.

(a) Section 3855, Financial Instruments – Recognition and Measurement
Section 3861, Financial Instruments – Disclosure and Presentation

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables and financial liabilities are classified as either held-for-trading or other liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and other liabilities.

Under the adoption of these new standards, the Corporation classified its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, dividends payable and financial long-term debt are classified as other financial liabilities, which are also measured at amortized cost.

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 contract; 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. The Corporation selected January 1, 2003 as the transition date to apply fair value accounting for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives.

At December 31, 2007 the Corporation has embedded derivatives that are required to be accounted for separately. The embedded derivatives relate to the foreign exchange component of certain contracts the Corporation entered into during the year for the purchase of capital assets. The embedded derivatives were initially measured at fair value with subsequent changes in fair value being recognized in net earnings.

Transaction Costs

Transaction costs related to held-for-trading financial assets and liabilities are expensed to interest and other expenses, net as incurred. Transaction costs related to available-for-sale financial assets, 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.

(b) Section 1530, Comprehensive Earnings, Section 3251 Equity

Comprehensive earnings is composed of the Corporation's net earnings or loss and other comprehensive earnings. Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive earnings or loss are disclosed in the consolidated statements of comprehensive earnings. Accumulated other comprehensive earnings or loss is included on the consolidated balance sheet as a separate component of shareholders' equity.

(c) Section 3865, Hedges

Section 3865, Hedges, whose application is optional, establishes how hedge accounting may be applied. The Corporation, in keeping with its risk management strategy, has elected to continue to apply hedge accounting to its interest rate swaps and designate them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in comprehensive earnings to the extent the hedging relationship is effective. The Corporation has also entered into forward currency contracts to manage foreign currency exposure for commitments to purchase capital assets. Hedge accounting has not been applied or has been discontinued for each of the foreign currency contracts. The contracts are therefore, marked-to-market at each period end with resulting gains or losses being recognized in net earnings.

Upon adoption on the above new standards on January 1, 2007, the Corporation recognized an increase in current assets of $223, a decrease in other assets of $462, an increase in future taxes payable of $79, a decrease in long-term debt of $462 and an increase in accumulated other comprehensive income of $144.

Change in Accounting Estimates

Employee Future Benefits

The Corporation provides pension and other post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation's actuaries in calculating such amounts. The most significant are the discount rate, the rate of increase of compensation, expected rates of return on plan assets, and the rate of increase in the cost of health care.

The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in Note 12 to the consolidated financial statements for the years ending December 31, 2007 and 2006.

Effective January 1, 2007 the Corporation changed two of the assumptions. The discount rate was reduced to 5% from 6% and the rate of increase of compensation has been reduced to 4% from 5%. These rates were used throughout the year for purposes of computing the net benefit cost incurred. At December 31, 2007 the Corporation changed the discount rate from 5% to 5.5% for purposes of calculating the accrued benefit obligation at December 31, 2007.

The adoption of these new assumptions increased the accrued benefit obligations and the unamortized amount by approximately $4,184 and increased the net benefit asset by $1,339. The effect on net earnings for the year ended December 31, 2007 was to decrease net earnings by $291 or $0.07 per common share.

Capital Assets

The Corporation reviews on a regular basis the amortization periods of capital assets for changes in estimated useful lives.

Effective January 1, 2007 the Corporation has revised the estimated remaining lives of some of the domestic dry-bulk vessels and an ocean shipping dry-bulk vessel. The adoption of these new assumptions has increased net earnings by $2,169 or $0.56 per common share for the year ended December 31, 2007.

Future Accounting Changes

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Corporation will adopt the new standards for its fiscal year beginning January 1, 2008.

Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for the presentation of financial instruments and non-financial derivatives.

Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The Corporation is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is reported to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the financial year ended December 31, 2007, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was carried out under the supervision of and with the participation of the CEO and CFO. Based on that evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2007, to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.

Under the supervision of and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

There have been no changes in the Corporation's internal controls over financial reporting during the fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Commencing in 2008, the Corporation will begin using an accounting system that has been developed to enhance its consolidated financial reporting and closing processes. Implementation of additional components of the accounting system is currently being planned.

Derivative Financial Instruments

The Corporation utilizes interest rate swap agreements on its debt instruments to manage risks associated with interest rate movements. At December 31, 2007, the interest rate swap contract had a negative fair value of $324 and at December 31, 2006, the interest rate swap agreements had a positive fair value of $223. The amounts have been recorded on the financial statements in accordance with the Corporation's hedge accounting policy.

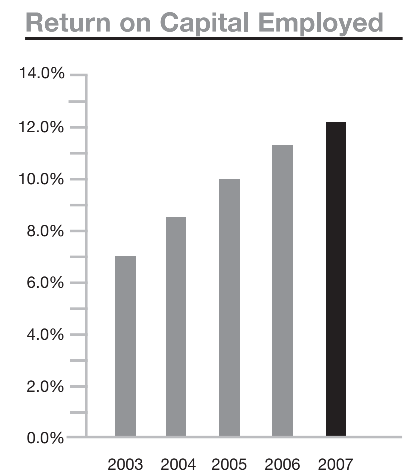
In addition to the interest rate swap agreements, the Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join our domestic dry-bulk and product tanker segments. At December 31, 2007 the foreign exchange forward contracts had a positive fair value of $188.

Return on Capital Employed

The Corporation uses Return on Capital Employed (ROCE) to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders.

The Corporation defines ROCE as earnings before financial expense and gains or losses on the translation of foreign-denominated assets and liabilities, on an after-tax basis, and expressed as a percentage of average capital. Capital is long-term debt including the current portion plus shareholders' equity.

The 2007 ROCE increased to 12.3% from 11.3% in 2006 as a result of increased earnings and the utilization of cash resources to finance new acquisitions.



Summary of Quarterly Results

The results for the last eight quarters are as follows with amounts in thousands of dollars except per share figures:

Year	Quarter	Revenue from continuing operations	Earnings (loss) from continuing operations	Earnings (loss) per share from continuing operations	Net earnings (loss)	Earnings (loss) per share
2007	Quarter 4	$ 185,134	$ 26,077	$ 6.70	$ 26,077	$ 6.70
	Quarter 3	$ 180,248	$ 21,580	$ 5.55	$ 21,580	$ 5.55
	Quarter 2	$ 163,136	$ 16,522	$ 4.25	$ 16,522	$ 4.25
	Quarter 1	$ 52,028	$ (11,736)	$ (3.02)	$ (11,736)	$ (3.02)
2006	Quarter 4	$ 163,061	$ 18,874	$ 4.85	$ 18,680	$ 4.80
	Quarter 3	$ 169,484	$ 17,717	$ 4.56	$ 17,670	$ 4.54
	Quarter 2	$ 162,671	$ 17,873	$ 4.59	$ 18,598	$ 4.78
	Quarter 1	$ 52,777	$ (12,889)	$ (3.31)	$ (12,889)	$ (3.31)

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 and 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.

Contractual Obligations

The table below provides aggregate information about the Corporation's contractual obligations at December 31, 2007, which affects the Corporation's liquidity and capital resource needs. The Corporation's contractual obligations include repayment of long-term debt and capital asset purchases.

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Repayment of long-term debt	$ 1,932	$ 3,864	$ 3,864	$ 4,340	$ 14,000
Capital asset purchases	114,025	176,350	18,740	-	309,115
Total	$ 115,957	$ 180,214	$ 22,604	$ 4,340	$ 323,115

The capital asset purchases included above consist primarily of the following:

- Construction of a three story office building in Henley Corporate Park with remaining commitments of approximately $1,276.
- Construction of two 11,240 deadweight petroleum product tankers at Eregli shipyard in Turkey. These vessels, the *Algonova* and *AlgoCanada*, are expected to be delivered in mid-2008 and have remaining commitments of approximately $76,310.
- Construction of three 16,500 deadweight tonne petroleum product tankers at Jiangxi Jiangzhou Union Shipbuilding Ltd. in China. These vessels are expected to be delivered in late 2010 and early 2011 and have remaining commitments of approximately $86,379.
- Construction of two maximum Seaway sized self-unloading forebodies which will be attached to the refurbished and upgraded aft-ends of the *Algobay* and *Algoport* at Chengxi Shipyard in China. The Corporation's share of the remaining commitments for these vessels which are expected to be delivered in late 2009 and the third quarter of 2010, is approximately $55,822.
- Construction of two 25,000 deadweight petroleum product tankers at Nangtong Mingde Shipyard in China. These vessels are expected to be delivered in mid 2010 and early 2011 and have remaining commitments of approximately $89,328.

Risks and Uncertainties

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

Shipboard Personnel

Staff availability on vessels is a concern in the marine industry as skilled personnel take a significant amount of time to develop and it is predicted there will be a global shortage of skilled personnel in the coming years due to significant attrition occurring. There are a limited number of training schools available to the industry and the industry faces competition from other sectors to attract and maintain good employees. A lack of shipboard staff could lead to service delays and outages. The Corporation is working with the industry and educators to enhance training programs to ensure an adequate supply of labour will be available to meet its future needs.

Unions

A majority of the crew on each of its domestic vessels belong to a union. Collective agreements are in good standing with each of the unions the Corporation is associated with. The collective agreements expire July 31, 2010 for the domestic product tanker group and May 31, 2011 for the domestic dry-bulk fleet. Certain employees of the ship repair business are employed under a collective agreement expiring May 31, 2009. Failure to enter into new collective agreements with each of the unions representing its workers could result in service outages. The Corporation believes relations are strong with each of the unions and does not expect any service interruptions.

Partnering

The Corporation operates a significant portion of its capital assets jointly with third parties. Partnerships are seen by the Corporation as an effective tool to expand the business on a global basis. The expanded service capacity a partnership can offer provides additional stability and flexibility to its customer base. The success of its partnerships depends on the on-going cooperation and liquidity of its partners. The Corporation believes it has chosen partners who have similar goals and values and the financial strength to execute the strategies set out by the partnerships.

Outsourcing

The Corporation contracts certain of its technical ship management activities to third parties. The selection of the proper service providers is important to ensure the Corporation's high performance standards are applied consistently. Agents not acting in the best interests of the Corporation could have a significant impact on the reputation of the Corporation. The Corporation takes great care in ensuring the performance of parties selected to perform outsourced services on its behalf match its high quality standards. Currently the Corporation deals with the two largest ship management companies in the world.

Service Failure

The Corporation's customers demand a high standard of operational excellence in order to ensure timely and safe delivery of its cargos to their destination. Incomplete or non-performance of services could expose the Corporation to customer complaints, penalties, litigation or loss of reputation. Failure to manage its fleet maintenance and capital improvements could impact the ability to generate revenue. The Corporation maintains stringent operational and maintenance plans to ensure assets perform to the maximum capability, and "Operational Excellence" is a high priority for each business unit.

Capital Assets

The non-performance of a shipyard to complete the construction of a vessel under development would impact on the Corporation's ability to replace existing assets and expand the business. The Corporation has committed approximately $340 million for the construction of nine new vessels with delivery dates extending to April 2011. These vessels are important to the modernization and service capacity of its fleet and to the business strategy of the Corporation. The shipbuilders have been carefully selected and a knowledgeable supervision team will be in place at each shipyard to ensure successful completion. In addition, the Corporation receives refund guarantees from the shipyards' bankers for installments made by the Corporation.

Competition

The marine shipping and real estate businesses are highly competitive on domestic and international fronts. The marine shipping business is subject to competition from other forms of transportation such as road and rail freight. Such competition may decrease the profitability associated with any contract and may increase the cost of acquisitions. The Corporation 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.

The Corporation believes the effect on earnings due to inflation or specific price changes will be insignificant.

Real estate assets are well maintained to provide long-term capacity to tenants and their users.

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

Regulatory

The Corporation is focused on the protection of the environment throughout its operations. Environmental protection is a dominant topic on the world legislative agenda. A change in legislation could have a significant impact on the Corporation's future operations and profitability. Domestically the Corporation is a member of the industry's "Green Marine" initiative to communicate and demonstrate its commitment to playing a leading role in environmental management. The product tanker fleet is preparing for ISO 14001 Environmental Management System certification in addition to its current compliance with International Safety Management Code and ISO 9001 Quality Management Systems. The Corporation's business segments are all in compliance with all applicable environmental laws and regulations.

A change in governmental policy could impact the ability to transport certain cargos. A policy change could threaten the Corporation's competitive position and its capacity to efficiently offer programs or services. The Corporation expects sufficient warning of a policy change providing it time to adjust and minimize the impact on the organization. Any such regulatory change would have a similar impact on our waterborne competitors.

Corporation employees participate in a number of industry associations that advise and provide feedback on potential regulatory change to ensure current knowledge of the regulatory environment.

Water Levels

The Corporation's domestic dry-bulk vessels and product tankers operate primarily in the Great Lakes and the St. Lawrence Seaway. The water levels in ports which the vessels load and unload have the effect of reducing cargo sizes and therefore reducing the profitability of these vessels. Water levels have generally been decreasing the last number of years.

Further drops in water levels in the Great Lakes and the St. Lawrence Seaway, which the Corporation has no control over, could have a significant impact on the future operations and profitability of the domestic dry-bulk vessels and product tankers.

The geographic diversity of the Corporation helps to mitigate the potential impact that could result from adverse affects due to lowering water levels and, in addition, a significant number of the domestic dry-bulk and product tanker customer contracts have freight rate adjustment clauses that provide financial protection for decreasing water levels.

Catastrophic Loss

A major disaster could impact the Corporation's ability to sustain operations and provide essential programs and services. The Corporation's assets may be subject to factors external to its control. The Corporation has emergency response and security plans for each fleet and vessel that is tested annually in accordance with statutory requirements. The Corporation maintains comprehensive insurance coverage on its assets and assesses the adequacy of this coverage annually.

Foreign Exchange

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. The Corporation's exchange risk on earnings of foreign subsidiaries is largely diminished due to both cash inflows and outflows being denominated in the same currency.

The Corporation has significant commitments due for payment in both U.S. dollars and in Euros. The Corporation mitigates the risk associated with the U.S. dollar payments principally through U.S. dollar cash inflows and foreign-denominated debt. The risk associated with the payments due in Euros is largely mitigated through foreign exchange forward contracts.

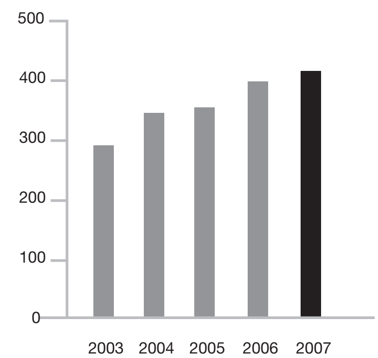
Domestic Dry-Bulk

The domestic dry-bulk segment includes the activities of the Corporation's Canadian dry-bulk vessels, one tug and one self-unloading barge and a ship repair and marine engineering business.

The commercial activity of the Corporation's Canadian flag dry-bulk cargo vessels, consisting of 14 owned self-unloading vessels and five owned bulk carriers, is managed by Seaway Marine Transport (SMT), a partnership jointly owned with Upper Lakes Shipping Inc., an unrelated party. SMT's responsibilities include marketing, vessel traffic, vessel management, purchasing, accounting and administrative functions of the respective fleets.

Revenue

Domestic Dry-Bulk
(IN MILLIONS)



SMT operated 21 self-unloaders during the year and 13 conventional bulk carriers, one more than during 2006. In addition, SMT has a 25% interest in Laken Shipping Corporation located in Cleveland, Ohio. Laken Shipping Corporation owns a U.S. flag tug and barge fleet consisting of a 10,200 net tonne capacity self-unloading barge and a 5,000 HP tug. SMT (USA) Inc., a wholly-owned U.S. subsidiary of SMT, time charters the tug/barge unit owned by Laken Shipping Corporation and is the commercial manager. SMT provides ship management services for two vessels not owned by the two partners. SMT also charters vessels from third parties under various commercial arrangements.

The SMT fleet is the largest and most diversified dry-bulk cargo fleet operating on the Great Lakes. The size of the fleet, together with a variety of unique vessel configurations, allows SMT to accommodate almost every dry-bulk shipping requirement. SMT is based in St. Catharines, Ontario and has a marketing and customer service office in Winnipeg, Manitoba. SMT (USA) Inc. has an office in Cleveland, Ohio.

Self-unloading bulk carriers discharge their cargo using onboard equipment. Cargo flows from the cargo hold through gates to conveyors located below the cargo hold. The cargo is carried through the ship, and then elevated to an unloading boom at deck level. Unloading booms are 75-80 metres long and can be moved up to 90 degrees from each side of the vessel. Self-unloaders either discharge cargo to stockpiles or directly into receiving storage facilities. Due to the flexibility of self-unloaders, the demand for this type of vessel remains high.

The self-unloader fleet carries iron ore and coal for steel producers, aggregate products, cement and gypsum for the construction and road-building industries, salt for road de-icing and other safety and commercial uses, coal for electric power generation, grain and fertilizers for the agriculture industry and a variety of other products.

Bulkers require shore based equipment to unload. The majority of bulker activity is limited to grain and iron ore shipments.

SMT's fleet complies with both the ISO: 9001 Quality Standard and the ISM Code requirements and has been granted full term ISO: 9001 and ISM Certification. Certification was performed by Lloyds Register. SMT's Quality and Safety Management System ensures continued compliance with these codes. In addition, all SMT managed vessels have approved security plans that, in addition to the Canadian regulations, comply with the International Ship and Port Security (ISPS) Code and associated U.S. regulations on marine security.

SMT serves a wide variety of major industrial segments, including iron and steel producers, aggregate, cement and building material producers, electric utilities, salt producers and agriculture product producers. SMT's customer group includes leading companies in each market sector and service relationships are typically long-term in nature.

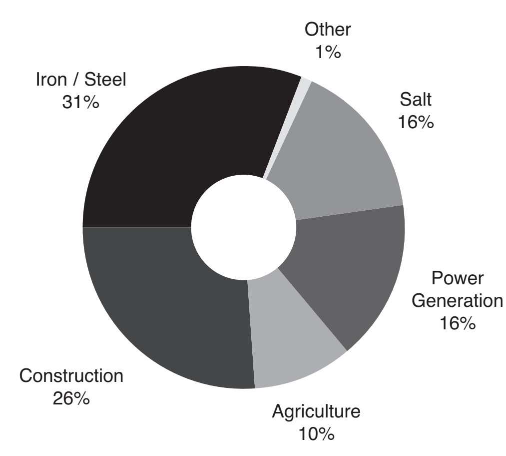
Revenues of the domestic dry-bulk segment increased from $400,461 in 2006 to $413,398 in 2007 mainly as a result of general increases in freight rates and improved recovery of higher fuel costs. This improved revenue coupled with a slightly improved operational performance resulted in operating earnings net of income tax increasing to $18,474 from $15,224 in 2006.

Total vessel operating days in 2007 exceeded 2006 levels by 1.7%. Self-unloader operating days in 2007 decreased by 2.2% over prior year levels. Bulker operating days increased by 9.6% over 2006 levels. Total tonnage carried by SMT declined by 6.1% from prior year levels reflecting in part lower water levels, reduced activity in the construction materials and salt sectors and longer voyages.

Total cargo carried by SMT and SMT (USA) Inc. in 2007 for self-unloader customers was 29.6 million tonnes. This represented an 8.1% decline from 2006 levels. Reduced requirements for aggregate and salt shipments were the primary cause of the reductions. Although SMT experienced a tonnage reduction in 2007, vessel utilization was maintained at 100% of available operating days due to an increase in average voyage durations. The reductions that affected aggregate and salt shipments in 2007 are expected to reverse in 2008. The amount of cargo carried by the bulker fleet decreased by 3.1% from 2006 levels to 9.7 million tonnes. Again, as was the case with the self-unloader fleet, bulker voyage durations, increased in 2007 thus maintaining very high fleet utilization. Incremental long haul shipments of iron ore from Lake Superior to St. Lawrence River transfer facilities offset some of the reductions experienced by one short haul bulker shipper who experienced a labour action in 2007.

Industry Segments

Seaway Marine Transport

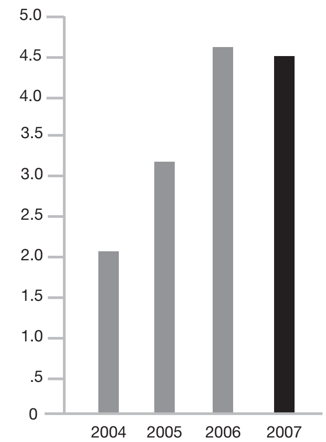


In 2007, SMT spent nearly $48.4 million in vessel lay-up expenses during the winter season. These expenditures are made to enhance vessel performance and to maintain vessel compliance with regulatory requirements. In addition, SMT undertook several capital improvement projects on vessels totalling $17.3 million. These projects included re-powering the *Algoville* and major steel renewals on the *Algolake* and *John B. Aird*.

Non Productive Days

Seaway Marine Transport

(PERCENTAGE OF AVAILABLE DAYS)



Water levels continued to be a concern in 2007, particularly in the upper Great Lakes, as this area experienced below normal rainfall for most of the year. Lake Superior water levels fell to record low levels in late summer before strengthening with increased rainfall in late September. The Port of Thunder Bay together with various elevator operators undertook a major dredging program that was completed in 2007. Unfortunately, by fall, water levels in Lakes Michigan and Huron began driving vessel operating drafts downward. By year-end, Lake Michigan and Huron were very close to record low levels. Lakes Erie and Ontario also fell below prior year levels. The outlook for 2008 calls for continuing low water levels.

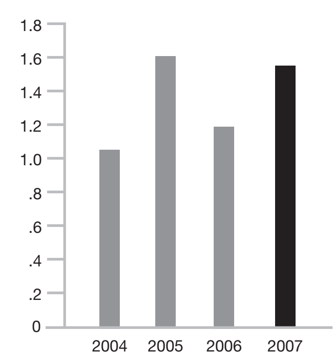
Effective cost control, operational excellence and continuous improvement are critical to SMT's goal of being the most competitive Great Lakes and St. Lawrence Seaway marine transportation service provider. Two key measures of quality performance are incident costs and non-productive days. In 2007, incident costs as a percentage of net revenue increased to 1.5% from 1.2% in 2006. Non-productive days as a percentage of available days were 4.4%, virtually unchanged from 2006. About 25% of the non-productive days, however, related to delays experienced in the *Algoville* re-powering project. SMT continues to focus on improvements in 2008.

Fuel costs increased dramatically during 2007. Crude prices by the end of 2007 touched $100 U.S. per barrel, more than 70% higher than prices at the beginning of the year. Over 95% of fuel costs are recovered by SMT through its freight rates. SMT over the last few years has significantly improved its fuel cost recoveries.

Incident Costs

Seaway Marine Transport

(PERCENTAGE OF NET REVENUE)



Demand for aggregates, cement and construction materials are expected to improve in 2008. This market segment accounted for about 27% of the total cargo carried by SMT in both 2007 and 2006.

Salt shipments represented about 16% of the cargo carried by SMT in 2007 and 2006. Salt shipments are expected to improve in 2008 as producers gear up for expected increased demand. Utilities represented about 16% of all cargo carried in 2007, down from 21% in 2006. Coal shipments are expected to strengthen in 2008. Agricultural product shipments increased to 10% of total activities in 2007 up from 8% in 2006. Shipments in this sector are expected to remain strong in 2008.

The Canadian flagged vessels in the SMT fleet have labour agreements with various unions representing the officers and seamen. The three labour unions representing the shipboard employees on the Corporation's vessels, including the Canadian Merchant Service Guild, Canadian Marine Officers Union and the Seafarers International Union expire on May 31, 2011. A renewal agreement was reached with the mates on the vessels owned by Upper Lakes Shipping Inc. which will now expire on May 31, 2010. Discussions are ongoing with the engineer's union and Upper Lakes Shipping Inc.

with respect to their labour agreement which expired on May 31, 2007. No labour disruptions are anticipated with this group. The labour contract for unlicensed crew on Upper Lakes' vessels expires on May 31, 2008.

In 2006, SMT embarked on a strategic initiative to renew and improve its information systems. The objective of this initiative was to create an integrated, company-wide information system that encompasses all functional areas within SMT's offices and fleet and incorporates a modern vessel communications system and computer hardware within a robust and scalable business system architecture. The result of this planning exercise was the development of a multi-year information systems renewal project that includes implementation of an enterprise software solution for SMT's primary information systems and the testing and development of improved vessel communication and information systems.

In June 2007, the enterprise system became operational at SMT. Upgraded vessel local area networks and computer hardware was installed on each vessel prior to the commencement of the 2007 sailing season. Also during 2007, SMT commenced the installation of a new shipboard management system across its fleet. This new system replaces two existing independent systems. Primary functions of the new system include management of vessel maintenance and repair records and schedules, purchase and inventory management and quality control and compliance controls. Installation of this new system will be completed in 2008.

In 2007 SMT announced its commitment to a $3.0 million upgrade of vessel communication systems to satellite based broadband service. This project will be implemented in two phases and should be fully operational by the start of the 2009 navigation season. It will provide a new level of integration between ship based and shore based information systems that will increase efficiency and effectiveness of our communication and business systems. It will also facilitate shipboard access to internet based information and will facilitate internet based regulatory reporting requirements.

The Corporation announced on November 7, 2007 that jointly with Upper Lakes Shipping Inc. they entered into agreements with Chengxi Shipyard located in Jiangyin, China to construct two maximum seaway size self-unloading forebodies and to attach these new forebodies to the aft-ends of the *Algobay* and the *Algoport*. The completed vessels are expected to be in service in December 2009 and September 2010, respectively at a cost of approximately $130 million with the Corporation's share amounting to $65 million. This expected total cost includes the cost to modernize the aft-ends of both vessels and a 25% import duty currently payable on the imported new vessels. The Corporation continues to advocate for the immediate elimination of the 25% import duty as there are no shipyards in Canada that have the capacity or facilities to build cost competitive new vessels. Upon delivery in December 2009 and September 2010, these vessels will be bareboat chartered to SMT.

SMT continues active development of other vessel types as part of its fleet renewal initiatives. It is expected that the *Sauniere* will be removed from service at the end of the 2008 navigation season due to the significant cost of required future repairs and maintenance.

Looking ahead to 2008, SMT expects demand for both self-unloaders and bulkers to continue to be strong. Strong North American and world demand for steel products are expected to continue through 2008. The North American steel industry has undergone a significant re-structuring over the last several years. The result is a much more competitive industry. SMT's activity with steel producers increased in 2007 to 31% of total activity (by volume) up from about 27% in 2006.

Ship Repair

The Corporation's ship repair business operates as Fraser Marine & Industrial (FMI). FMI provides diversified ship repair, steel fabrication, machine shop and electrical repair services to the Corporation's vessels, as well as other fleets on the Great Lakes - St. Lawrence Waterway.

From their Port Colborne, Ontario location, FMI provides marine repair services in Owen Sound, Sarnia, Hamilton, Toronto, Montreal and the Welland Canal area. Supervision and core skills are provided from Port Colborne and local, temporary labour is hired for the work in specific ports. These are the ports that the Great Lakes vessels generally use for winter lay-up berths. Although these ports are the main winter repair centers, FMI can quickly mobilize a work force in any Great Lakes port if justified. The FMI motto of “Anytime … Anywhere” recognizes the round-the-clock, mobile nature of the marine industry. During the summer months a core of supervisors and skilled workers are available for unscheduled and emergency repair work that inevitably occurs on both domestic and foreign vessels on the Great Lakes.

FMI continues to work with its customers and provides competitive rates for prefabrication of material that is anticipated for the coming winter. This allows utilization of shop facilities and labour during slower summer months and efficient use of more limited resources in the winter.

Focus on operational strengths and efficiencies have allowed FMI to increase annual revenue while maintaining control over costs and quality. As a result FMI has contributed positively to the domestic dry-bulk financial results.

FMI is the premier top-side ship repair firm on the Great Lakes and has demonstrated its ability to take on very large and complex projects and complete them in the short winter repair period. They have an enviable reputation of finishing these projects on time and on budget and to a high standard of quality.

Product Tankers

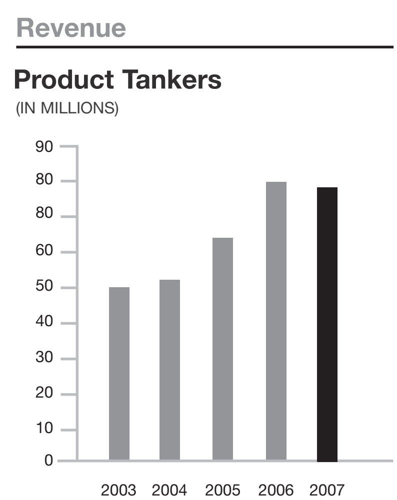
Throughout 2007, the Corporation owned and operated four Canadian flag products tankers and one Danish flag product tanker. The Canadian fleet’s primary function is to provide transportation of liquid petroleum products throughout the Great Lakes – St. Lawrence Waterway and Atlantic Canada regions. Our customers, who demand a high level of quality, include major oil refiners, wholesale distributors and large consumers of clean and black petroleum products.

The *Amalienborg* is a sister ship to the *Algosea* and is currently trading under Danish flag in Europe and the Mediterranean. We expect this to continue into late 2008 after which the vessel is expected to be chartered to Hanseatic Tankers, the new international product tanker joint venture which is being formed in 2008.

With the addition of the *Amalienborg* in 2006, the *Algosea* and *Algosar* in 2005, the *Algoscotia* in 2004 and the removal from service of four older single hulled vessels since 2004, our current five vessel tanker fleet is the most modern fleet in our service area. Our fleet has a total deadweight capacity of 71,130 tonnes or 503,611 barrels.

In May 2007 the Corporation through a wholly owned subsidiary, entered into an agreement with the MedMarine Group in Istanbul, Turkey, to purchase two modern petroleum tankers that are under construction at Eregli Shipyard, Turkey. The ships will be delivered in the second half of 2008 which will be three to four months later than originally expected. These delays are due mainly to work scheduling issues and the delay of a main component.

The total cost of the two new product tankers is $83 million and includes a 25% import duty. The Corporation continues to advocate for the immediate elimination of the 25% import duty as there are no shipyards in Canada that have the capacity or facilities to build cost competitive new vessels.



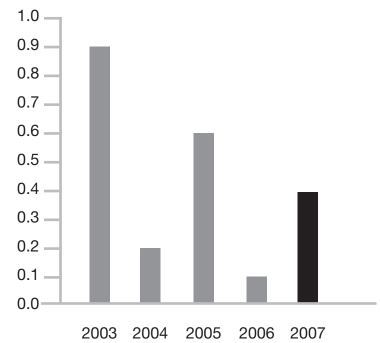
These high specification, 11,240 deadweight product tankers are perfectly suited for all of our customer's needs in all of the Great Lakes and East Coast ports. They are capable of unlimited ocean voyages and meet all double hull and environmental requirements and the Ice Class 1A hull construction will further enhance the product tanker fleet's ability to achieve a twelve month operating season.

The tanker fleet achieved 100% utilization in 2007 as all available vessels were fully employed. Revenue generated by the tanker fleet in 2007 was $78,719. This is $1.1 million less than 2006 as the result of having sold the *Algonova* in January 2007 and having one less ship for the entire year. Resultant operating earnings net of income tax were also affected by this reduction in capacity as well as higher operating expenses due mainly to a planned regulatory drydocking required in 2007. The above decrease was partially offset with the *Amalienborg* operating for the full year in 2007. As a result, operating earnings net of income taxes was reduced to $11,590 from $14,553.

Incident Costs

Product Tankers

(PERCENTAGE OF NET REVENUE)



The domestic technical and commercial operations are managed by our in-house staff located at 63 Church Street in St. Catharines, Ontario. This group is focused on customer service, quality performance and safety, security and environmental responsibilities. The success of any fleet of ships requires a focus on operational excellence. The Algoma Tanker ship managers have captured the essence of that focus in one, three part statement which is incorporated in the Algoma Tankers Mission Statement; "Don't Hurt Anyone, Don't Spill Anything, Don't Hit Anything". This sentiment is echoed by our customers who demand that their service providers operate at a very high level of operational excellence. Algoma Tankers consistently meet that requirement.

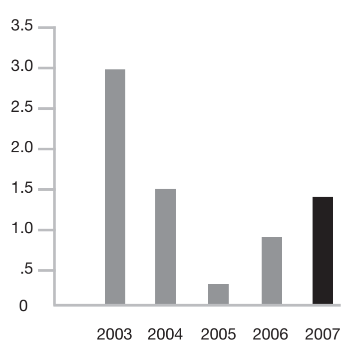
Algoma Tankers shore based managers and shipboard personnel continued previous years' efforts to achieve "Operational Excellence" or flawless execution in all activities under their control. Operational Excellence has at its base, the Continuous Improvement Cycle of '"Plan - Do - Check - Act" which drives Algoma's Quality, Safety and Environmental Management Systems. As cornerstones of Operational Excellence, a focus on visible leadership, accountability, and positive communication, was maintained and enhanced during 2007 with the commitment and involvement of both shoreside and shipboard personnel.

Two key performance indicators are incident costs as a percentage of net revenue and non productive days as a percentage of available days. Over the past year, incident costs as a percentage of net revenue increased from 0.09% in 2006 to 0.36% in 2007. Non-productive days increased from 0.87% in 2006 to 1.46% in 2007. Although this increased trend is disappointing, the 2007 results are an indication of good performance and are within our five year average. The management team is committed to reversing this trend in 2008.

Non Productive Days

Product Tankers

(PERCENTAGE OF AVAILABLE DAYS)



To further focus Algoma's efforts on protection of the environment, Algoma Tankers is actively involved in an industry initiative entitled "Green Marine" which brings together seven associations from the Canadian and U.S. maritime industries, and is headed by a steering committee composed of the Chief Executive Officers of major marine companies active in the industry. This initiative's objective is to implement a voluntary environmental program in the St. Lawrence and Great Lakes, with a view to demonstrating and communicating the maritime industry's commitment to playing a leading role in environmental management. In addition to this environmental initiative Algoma Tankers is currently in the process of developing and implementing an ISO 14001 compliant Environmental Management System, building on its current foundation of a compliant International Safety Management (ISM) Code and ISO 9001 Quality Management Systems.

Algoma believes that through active and visible leadership and the implementation of sound management practices in the areas of Quality, Safety, and the Environment that it will continue to be a leader in customer service, personal safety, and environmental leadership within the industry.

We see the strong demand experienced in the last few years continuing throughout 2008. We expect our two new Turkish built vessels, which will arrive in the second half of 2008, to be fully utilized through the remainder of 2008. These two new ships will increase the capacity of our product tanker fleet and allow us to develop a larger customer base which has been one of our goals since the creation of Algoma Tankers ten years ago.

Algoma Tankers came into existence on February 2, 1998. On that date Algoma Central Corporation and Imperial Oil Limited entered into an agreement where Algoma purchased the entire Imperial Oil domestic tanker fleet and contracted to be Imperial's sole provider of petroleum product marine transportation services. This was a significant departure from Algoma's traditional dry-bulk marine transportation business. In the last ten years Algoma Tankers has completely renewed the original fleet purchased from Imperial at a total cost of approximately $190 million and has become the most modern tanker operator in Canada.

The employees of Algoma Tankers look back at the last ten years with pride and a sense of accomplishment and look forward to the challenges that the next ten years will offer.

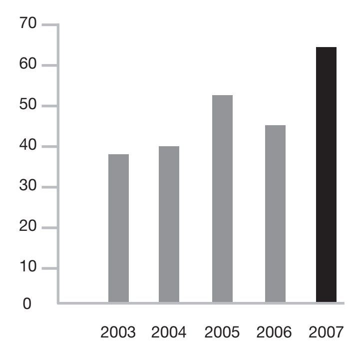
Ocean Shipping

The Corporation's interest in ocean shipping consists of 100% ownership of two ocean-going self-unloading vessels through its wholly-owned subsidiary and a 50% ownership of five ocean-going self-unloading vessels, through its 50% ownership of Marbulk Canada Inc. (MCI).

Revenue

Ocean Shipping

(IN MILLIONS)



These seven vessels are combined with the ocean-going self-unloading vessels of CSL International Inc., the other 50% owner of MCI, Oldendorff Carriers, a German shipowner based in Lübeck, Germany and the Torvald Klaveness Group, a Norwegian shipowner based in Oslo, Norway to form the CSL International commercial arrangement (CSLI).

CSLI has experienced very strong demand for its vessels for the last few years. The three major commodities which are served by the pool, gypsum for wallboard, crushed aggregates for construction and coal for power generation continue to see strong demand. As a result of continued strong demand, the number of vessels in the combined fleet grew from 26 in 2006 to 29 in 2007.

On July 17, 2007 the Corporation took delivery of a Panamax size, self unloading vessel which was constructed at Chengxi Shipyard in Jiangyin, China at a cost of $49.1 million and entered service on August 1, 2007. The project was somewhat unconventional in that it involved the construction of an ocean-going, self-unloading forebody which was then joined to the aft-end of an existing Panamax tanker. The existing tanker hull was cut away at the engine room bulkhead and the aft end of the donor tanker, containing the engine room and accommodations, was joined to the newly constructed forebody. The entire aft end was completely refurbished and fitted with new equipment where refurbishment was not economical.

This method of construction, which was the fifth in a series of similar vessels for the owners, permitted a lower total cost and, more importantly, a more timely delivery. New construction yards are booked out to 2011 and new engine deliveries are just as long. This project was about fourteen months from contract signing to delivery.

The vessel joined the CSLI arrangement as the *Honourable Henry Jackman* in honour of a long serving Director of the Corporation, the former Lieutenant-Governor of Ontario and a former Chairman of the Corporation. The new vessel's performance through 2007 was excellent and it will be a significant contributor to our ocean shipping fleet results through 2008 and beyond.

The revenue earned from ocean shipping increased from $44,813 to $64,793, an increase of 45%. This increase was due mainly to more ship days being available as a result of fewer scheduled regulatory dry dockings in 2007, the addition of the *Honourable Henry Jackman* for a part of the year and strong earnings from positioning cargoes for two vessels going to and one vessel returning from scheduled regulatory dry-dockings in China. Operating earnings increased from 2006 due to the same factor mentioned above. In 2007 operating earnings net of income tax increased to $15,685 from $10,837 in 2006.

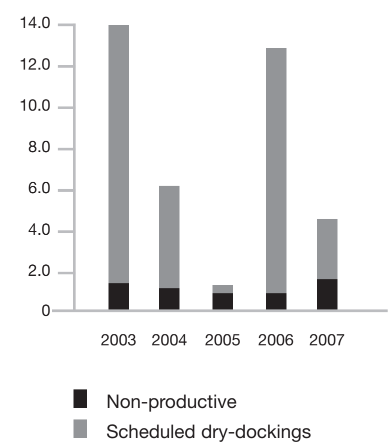
Due to the timing of required regulatory surveys, planned dry-docking days as a percentage of available days fell from 12.48% in 2006 to 3.31% in 2007. Non-productive days rose from 0.92% to 1.66% in the same period due almost entirely to an unplanned maintenance event on one vessel.

Vessel management and maintenance of the *Honourable Henry Jackman, Bahama Spirit* and the Marbulk vessels is outsourced to Dorchester Atlantic Marine Limited Partnerships and V-Ships, two of the world's leading ship management companies. However, the technical departments of the two principals of Marbulk, the Corporation and CSL Group Inc. have oversight responsibilities for the fleet. There continues to be a strong focus on improving productivity and operational excellence including safety, security and environmental protection. Effective January 1, 2008, "Dorchester Atlantic Marine Limited Partnership" was renamed to "Bernhard Schulte Shipmanagement (Bermuda) Limited Partnership".

Non Productive Days

Ocean Shipping

(PERCENTAGE OF AVAILABLE DAYS)



We expect 2008 will be another strong year for ocean shipping. The expected continued high demand for the CSLI vessels and the impact of the *Honourable Henry Jackman* in operation for the full year will be positive for results. The potential offset will be whether or not the two vessels returning from dry-dockings in China in the first quarter will be able to return with profitable positioning cargoes.

Real Estate

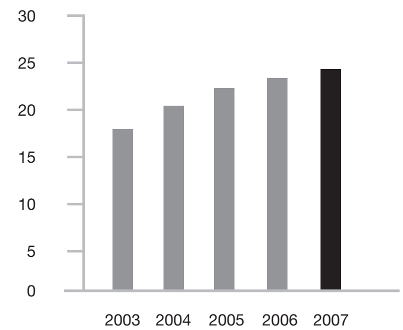
The real estate portfolio of the Corporation, which is owned and managed by Algoma Central Properties Inc. (ACP), includes investment properties located in the cities of Sault Ste. Marie, St. Catharines and Waterloo, Ontario. In Sault Ste. Marie, ACP owns and manages the Station Mall, the Station Tower and 289 Bay Street office buildings and Station '49', a residential apartment building. ACP also owns, but does not manage, the Holiday Inn in Sault Ste. Marie, Ontario.

In St. Catharines, properties include three office buildings known as 63 Church Street, 20 Corporate Park Drive and 25 Corporate Park Drive. There are also two commercial plazas known as Ridley Square and Huntington Square as well as two light industrial properties known as 610 Welland Avenue and Martindale Business Centre. In addition, ACP owns 50% of Seventy-Five Corporate Park Drive Ltd. (a joint venture with Meridian Credit Union) which owns an office building and is managed by ACP.

ACP owns and manages three office buildings in Waterloo located at 408, 410 and 412 Albert Street, collectively known as the Waterloo Technology Campus.

Revenue

Real Estate
(IN MILLIONS)



ACP's revenue increased by 3% in 2007 to $23,636 when compared to 2006 revenue of $22,887. The revenue increase is attributable to higher rental rates, increases in recoverable costs due from tenants and the first full year of owning 100% of 412 Albert Street, Waterloo. Operating earnings net of income tax for 2007 were $4,827 compared to $5,040 for 2006. This decrease of $213 or 4% was mainly due to increased management fees incurred in the year.

In 2007, ACP invested a total of $5,808 for the construction of the new 25 Corporate Park Drive building and general upgrades and tenant improvements to the Corporation's other owned properties.

Sault Ste. Marie, Ontario

Station Mall revenue increased by 3% in 2007 due mainly to increased rental rates when compared to 2006. Occupancy is currently at 97%, reflecting a slight decrease from 98% when compared to the previous year. We see a very challenging year ahead with respect to leasing to prospective retail tenants in consideration of the possibility of reduced growth in consumer spending.

Revenue from our commercial office building, Station Tower, decreased 4% in 2007 in comparison to 2006. The decrease is mainly due to tenant turnover in the year with occupancy remaining at 95% at the end of the year when compared to 2006.

Occupancy remained at 100% in 2007 for the 289 Bay Street office building with revenue up 5% over 2006 as a result of increased recoverable common costs.

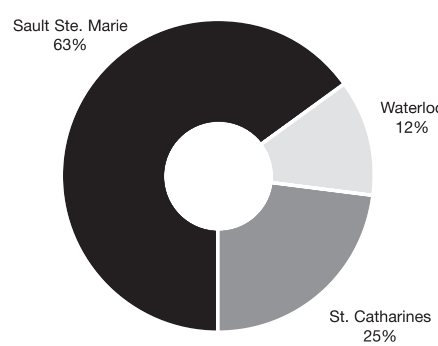
The Station '49' apartment building is currently 99% leased with increased revenue of 3% in 2007 over 2006 due to increases in rental rates. Occupancy usually fluctuates throughout the year due to typical tenant turnover.

Revenue from our hotel, the Holiday Inn, increased by 2% in 2007, which is respectable in consideration of the difficult tourism market which has been negatively affected by both the strong Canadian dollar and the weak economy in the latter half of 2007. The existing lease expires in April 2009, however the tenant does have a renewal right. We are presently in discussion with our tenant regarding reviewing the long-term options with respect to this lease.

The Gateway Project, which was a tourism-oriented development to be constructed on lands neighbouring ACP's investment properties in downtown Sault Ste. Marie, has been deferred. We viewed the project very optimistically due to the positive impact it would have on the performance of our properties.

Geographic Diversification

Real Estate
(BY SQUARE FOOT)

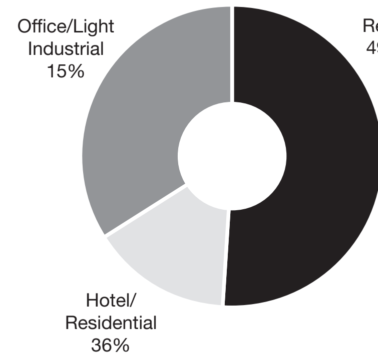


Certain criteria could not be agreed to between the City and the developer and the City is now looking for a new partner.

Asset Mix

Real Estate

(BY SQUARE FOOT)



St. Catharines, Ontario

The new office building located at our Henley Corporate Park development site has recently been completed and is known as 25 Corporate Park Drive. This 45,000 square foot, three storey building is now 62% pre-leased to three Class 'A' tenants. The first lease commencement date is March 2008. We also have three acres of vacant land located at the Henley Corporate Park site which remains available for development. Although the occupancy rate for 20 Corporate Park Drive is the same as last year at 94%, base rent actually declined in the year due to fluctuations in the occupancy level throughout the year. Total revenue is up by 1% over the previous year due to recoverable cost increases due from the tenants. The competition in the downtown office market remains very competitive, and although revenue has remained the same for 63 Church Street in comparison to the year 2006, occupancy decreased from 88% at the end of 2006 to 75% by the end of 2007. This building also houses the Corporation's executive offices.

The Ridley Square and Huntington Square plazas had a revenue increase of 3% in 2007 over 2006 reflecting increases in recoverable costs from the tenants in addition to slight rental rate increases. Occupancy remained at 100% for Ridley Square for the year while Huntington Square decreased to 94% from 95% at the end of 2006. The occupancy rate for Martindale Business Centre increased to 96% in 2007 compared to 92% in 2006 which resulted in a 9% increase in revenue in 2007 when compared to the previous year. Our other light industrial property, 610 Welland Avenue, is leased to a single tenant. The tenant has vacated the property but continues to honour the lease obligations. ACP is currently in the process of attempting to sell the property.

Our joint venture office building, 75 Corporate Park Drive, has maintained 100% occupancy throughout the year with revenue remaining flat in 2007 when compared to the year 2006. A tenant will be vacating their premise, representative of 11% of the gross leasable area of the building, in March 2008 and will be relocating to the 25 Corporate Park Drive building. Our joint venture partner, also a tenant in the building, is interested in leasing the subject premises for its own use. As a result of over-crowding and in order to meet our tenants' needs, the parking facilities were expanded in 2007 on adjacent lands owned by ACP.

Although the downturn in the industrial sector in St. Catharines has provided for certain negative impacts, the service sector's interest in quality commercial space remains positive. We are optimistic that lease-up of our properties will continue to improve.

Waterloo, Ontario

Revenue increased 7% in 2007 when compared to 2006 for the three office buildings known as the Waterloo Technology Campus. The improvement in revenue is mainly due to 2007 being the first full year of 100% ownership of the 412 Albert Street building. Occupancy is 100% with 3% leased on a temporary basis to an already existing tenant. This tenant is still examining its long-term spatial requirements and currently the possibility of an expansion is being contemplated.

The local economy of Waterloo remains strong with the commercial office market being in tandem. Quality premises in prime areas are at a premium.

In 2008, ACP expects to invest approximately $2,500 in general upgrades, renovations and leasehold improvements for our owned properties.

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 conformity with Canadian generally accepted accounting principles and necessarily include some amounts that are based on estimates and judgments. 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 records are reliable.

The Board of Directors carries out its responsibility for the 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.

Greg D. Wight
Executive Vice President and Chief Financial Officer
February 15, 2008

Tim S. Dool
President and Chief Executive Officer
February 15, 2008

Auditors' Report

To the Shareholders of Algoma Central Corporation

We have audited the consolidated balance sheets of Algoma Central Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings and retained earnings, comprehensive earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte & Touche LLP,
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario, February 15, 2008

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 2007 and 2006
(In thousands of dollars, except per share figures)

	2007	2006
REVENUE	$ 580,546	$ 547,993
EXPENSES		
Operations	455,418	433,463
General and administrative	24,675	21,450
	480,093	454,913
EARNINGS FROM CONTINUING OPERATIONS BEFORE UNDERNOTED ITEMS	100,453	93,080
Amortization	(29,432)	(29,163)
Financial expense *(Note 7)*	(1,463)	(2,417)
Net gain (loss) on translation of foreign-denominated assets and liabilities	3,493	(566)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	73,051	60,934
INCOME TAX PROVISION *(Note 8)*	(11,480)	(11,744)
EARNINGS OF MINORITY INTEREST	(9,128)	(7,615)
EARNINGS FROM CONTINUING OPERATIONS	52,443	41,575
EARNINGS FROM DISCONTINUED OPERATIONS *(Note 5)*	-	484
NET EARNINGS	52,443	42,059
RETAINED EARNINGS, BEGINNING OF YEAR	316,313	279,213
DIVIDENDS	(5,354)	(4,959)
REFUNDABLE DIVIDEND TAXES *(Note 9)*	(1,135)	-
RETAINED EARNINGS, END OF YEAR	$ 362,267	$ 316,313
BASIC AND DILUTED EARNINGS PER SHARE		
CONTINUING OPERATIONS	$ 13.48	$ 10.69
DISCONTINUED OPERATIONS	-	0.12
	$13.48	$10.81

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 10)*	$ **28,132**	$ 55,245
Accounts receivable	**81,080**	63,482
Materials and supplies	**10,928**	9,419
Prepaid expenses	**10,137**	8,643
Income taxes recoverable	**6,420**	8,491
	136,697	145,280
CAPITAL ASSETS *(Note 11)*	**384,454**	356,705
OTHER ASSETS *(Note 13)*	**12,357**	12,314
	$ **533,508**	$ 514,299
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	$ **71,662**	$ 60,792
Current portion of future income taxes *(Note 8)*	**20,850**	21,276
Due to minority interest	**9,128**	7,615
Dividends payable	**631**	593
Current portion of long-term debt *(Note 14)*	**1,932**	11,930
	104,203	102,206
FUTURE INCOME TAXES *(Note 8)*	**29,285**	33,903
LONG-TERM DEBT *(Note 14)*	**11,893**	26,352
OTHER LIABILITIES *(Note 15)*	**9,081**	8,263
DUE TO MINORITY INTEREST	**16,383**	10,061
COMMITMENTS AND CONTINGENCIES *(Notes 19 and 21)*	**-**	-
	170,845	180,785
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 16)	**8,319**	8,319
CONTRIBUTED SURPLUS	**11,917**	11,917
ACCUMULATED OTHER COMPREHENSIVE LOSS *(Note 17)*	**(19,840)**	(3,035)
RETAINED EARNINGS	**362,267**	316,313
	362,663	333,514
	$ **533,508**	$ 514,299

APPROVED BY THE BOARD

Director

Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings

Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
NET EARNINGS	$ 52,443	$ 42,059
OTHER COMPREHENSIVE (LOSSES) GAINS		
Unrealized (loss) gain on translation of financial statements of foreign self-sustaining operations	(16,597)	2,395
Unrealized loss on hedged instruments, net of tax of $115	(208)	-
	(16,805)	2,395
COMPREHENSIVE EARNINGS	$ 35,638	$ 44,454

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006
(In thousands of dollars)

	2007	2006
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Earnings from continuing operations	$ 52,443	$ 41,575
Items not affecting cash		
Amortization	29,432	29,163
Future income taxes	(5,734)	(693)
Earnings of minority interest	9,128	7,615
Gain on sale of capital assets	(3,566)	-
Other	(1,109)	695
	80,594	78,355
Net change in non-cash operating working capital *(Note 18)*	(10,183)	3,658
	70,411	82,013
INVESTING		
Additions to capital assets	(74,803)	(65,699)
Proceeds from disposal of capital assets	3,323	-
Other	(967)	(1,832)
	(72,447)	(67,531)
FINANCING		
Proceeds from issue of long-term debt	40,779	6,709
Repayment of long-term debt	(57,621)	(9,418)
Net payments to minority interest	(1,291)	(7,669)
Dividends paid	(5,316)	(4,935)
	(23,449)	(15,313)
LOSS ON CASH HELD IN FOREIGN CURRENCY	(1,628)	(96)
NET CHANGE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(27,113)	(927)
CASH FROM DISCONTINUED OPERATIONS *(Note 5)*	-	4,439
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,245	51,733
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 28,132	$ 55,245

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006 (In thousands of dollars)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Incorporated as Algoma Central Railway in Sault Ste. Marie, Ontario in 1899, Algoma Central Corporation ("Corporation") is the largest Canadian-flag ship owner on the Great Lakes-St. Lawrence Waterway.

The Corporation owns 19 Canadian-flag dry-bulk vessels. The operational and commercial activities of the dry-bulk fleet are managed by Seaway Marine Transport, a partnership with Upper Lakes Shipping Inc, an unrelated company. The Corporation also has an interest in one tug and one barge.

The Corporation, through a wholly-owned subsidiary, owns and manages the operational and commercial operations of four Canadian-flag tanker vessels. The Corporation also owns an additional foreign-flag tanker through a wholly-owned foreign subsidiary.

The Corporation owns two ocean-going self-unloading vessels through a wholly owned foreign subsidiary and has an interest through a joint venture in an ocean-going fleet of five self-unloaders. These vessels are part of a 29 vessel ocean-going self-unloader commercial arrangement.

The Corporation, through a division, provides diversified ship repair, diesel engine repair services and fabrication services to ship-owners and industrial customers throughout the Great Lakes-St. Lawrence Waterway.

The Corporation, through a wholly owned subsidiary, also owns and manages commercial real estate properties in Sault Ste. Marie, St. Catharines and Waterloo, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation are as follows:

Basis of Presentation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and comprise the accounts of Algoma Central Corporation, its subsidiary companies, its variable interest entities and its proportionate share of joint ventures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. Significant estimates made by the Corporation include the useful lives of capital assets, the recoverability of long-lived assets and future income taxes.

In addition, the Corporation provides pensions and post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Corporation's consolidated financial statements.

Consolidation of Variable Interest Entities

CICA Accounting Guideline 15 (“AcG 15”) “Consolidation of Variable Interest Entities” requires the consolidation of variable interest entities where the Corporation is the primary beneficiary. A variable interest entity is any type of legal structure which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. A primary beneficiary is required to consolidate an entity when that party will absorb a majority of a variable interest entity’s expected losses and/or receive a majority of the expected residual returns through contractual, ownership or other financial arrangements, as opposed to traditional voting rights.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in the bank less outstanding cheques and short-term deposits that are readily convertible into a known amount of cash and are subject to a minimal change in value.

Materials and Supplies

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

Capital Assets

Capital assets are stated at cost less accumulated amortization and amounts written down to net recoverable value. Interest incurred on funds borrowed to finance capital asset acquisitions is capitalized during the construction period.

The Corporation accounts for acquisitions of income–producing properties initiated on or after September 12, 2003 in accordance with EIC-140, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination". The Corporation allocates the purchase price of real property to land, building, tenant improvements, and intangibles, such as the value of above-market and below-market leases, lease origination costs and customer relationships, if any.

Domestic dry-bulk vessels are amortized on a straight-line basis over their remaining estimated lives of up to ten years. Tug and barge vessels are amortized over ten years.

Product tanker vessels are amortized on a straight-line basis over their remaining estimated lives of up to 22 years.

Ocean shipping vessels are amortized on a straight-line basis over their remaining estimated lives of up to 20 years.

Real estate assets including site improvements are amortized on a straight-line basis over their remaining estimated lives of up to 35 years.

Leasehold improvements are amortized over the remaining term of the respective lease agreements.

Marine assets are not amortized during the period when the vessels are under construction or are undergoing a significant improvement to extend their estimated useful life.

Impairment of Long-Lived Assets

The Corporation reviews whenever indications exist and at a minimum on an annual basis, whether there are any signs of impairment of its capital assets and identifiable intangible assets (“long-lived assets”). The impairment of a long-lived asset is measured by comparing the expected future undiscounted cash flows to the carrying amount of the asset. If the carrying value exceeds the amount recoverable, the carrying values are written down to estimated fair value.

Asset Retirement Obligations

The Corporation accounts for the recognition and measurement of liabilities related to legal obligations associated with the retirement of tangible long-lived assets by initially measuring the liability at fair value and subsequently adjusting the liability for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings over time. At December 31, 2007 there were no asset retirement obligations.

Vessel Repair and Maintenance

The Corporation incurs dry-docking costs during the performance of scheduled inspection of its vessels, which occur at least every five years. The costs of dry-docking are expensed as incurred unless a legal or constructive obligation to perform the dry-docking is present, such as under a financing arrangement, under which the costs are estimated and accrued during the operating years leading up to the dry-docking. The Corporation currently has no such obligations.

Revenue Recognition

Revenues from marine operations are recognized ratably over the term of a voyage. Revenues from real estate rental operations with contractual rent increases are recognized on a straight line basis over the terms of the respective leases.

Foreign Currency Translation

The financial statements of the Corporation's foreign self-sustaining joint venture and subsidiary companies have been translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rate for revenues and expenses. Translation adjustments are recorded as part of Accumulated Other Comprehensive Earnings included in Shareholders' Equity.

Exchange differences arising from the translation of monetary assets and liabilities denominated in foreign currencies are recorded in earnings.

Employee Future Benefits

The Corporation sponsors defined benefit pension plans, a defined contribution pension plan and other post-retirement benefits including life insurance and health care. The benefit plans are further described in Note 12.

The cost of defined benefit pensions and other post-retirement benefits that relate to employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, the assets are valued at fair market value.

The discount rate used to measure the interest cost on the accrued future employee benefit obligation is set with reference to market interest rates on high-quality debt instruments. The excess of the net cumulative actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of the benefit assets and adjustments resulting from benefit amendments are amortized over the average remaining service life of active employees.

The cost of defined contribution pensions is expensed as earned by employees.

Income Taxes

The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the accounting and the tax basis of assets and liabilities and are measured using the enacted and substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per Share

Earnings per share are calculated using the weighted average number of shares outstanding during the year. The Corporation does not have any dilutive instruments.

Future Accounting Changes

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Corporation will adopt the new standards for its fiscal year beginning January 1, 2008.

Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for the presentation of financial instruments and non-financial derivatives.

Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance

The Corporation is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Corporation adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 1530, Comprehensive Income; Section 3251, Equity; and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments. The comparative consolidated financial statements have not been restated except for the presentation of unrealized foreign exchange losses on the translation of self-sustaining foreign operations. The principal changes in the accounting for financial instruments and hedging relationships due to the adoption of these accounting standards are described below.

(a) Section 3855, Financial Instruments – Recognition and Measurement
Section 3861, Financial Instruments – Disclosure and Presentation

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables and, financial liabilities are classified as either held-for-trading or other liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and other liabilities.

Under the adoption of these new standards, the Corporation classified its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, dividends payable and financial long-term debt are classified as other financial liabilities, which are also measured at amortized cost.

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 contract; 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. The Corporation selected January 1, 2003 as the transition date to apply fair value accounting for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives.

At December 31, 2007 the Corporation has embedded derivatives that are required to be accounted for separately. The embedded derivatives relate to the foreign exchange component of certain contracts the Corporation entered into the during the year for the purchase of capital assets. The embedded derivatives were initially measured at fair value with subsequent changes in fair value being recognized in net earnings.

Transaction Costs

Transaction costs related to held-for-trading financial assets and liabilities are expensed to interest and other expenses, net as incurred. Transaction costs related to available-for-sale financial assets, 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.

(b) Section 1530, Comprehensive Earnings, Section 3251 Equity

Comprehensive earnings is composed of the Corporation's net earnings or loss and other comprehensive earnings. Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive earnings or loss are disclosed in the consolidated statements of comprehensive earnings accumulated other comprehensive earnings or loss is included on the consolidated balance sheet as a separate component of shareholders' equity.

(c) Section 3865, Hedges

Section 3865, Hedges, whose application is optional, establishes how hedge accounting may be applied. The Corporation, in keeping with its risk management strategy, has elected to continue to apply hedge accounting to its interest rate swaps and designate them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in comprehensive earnings to the extent the hedging relationship is effective. The Corporation has also entered into forward currency contracts to manage foreign currency exposure for commitments to purchase capital assets. Hedge accounting has not been applied or has been discontinued for each of the foreign currency contracts. The contracts are therefore, marked-to-market at each period end with resulting gains or losses being recognized in net earnings.

Upon adoption on the above new standards on January 1, 2007, the Corporation recognized an increase in current assets of $223, a decrease in other assets of $462, an increase in future taxes payable of $79, a decrease in long-term debt of $462 and an increase in accumulated other comprehensive income of $144.

4. CHANGE IN ACCOUNTING ESTIMATES

Employee Future Benefits

The Corporation provides pension and other post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation's actuaries in calculating such amounts. The most significant are the discount rate, the rate of increase of compensation, expected rates of return on plan assets, and the rate of increase in the cost of health care.

The assumptions are reviewed annually and the impact of any changes in the assumptions is disclosed in Note 12 to the consolidated financial statements for the years ending December 31, 2007 and 2006.

Effective January 1, 2007 the Corporation has changed two of the assumptions. The discount rate was reduced to 5% from 6% and the rate of increase of compensation has been reduced to 4% from 5%. These rates were used throughout the year for purposes of computing the net benefit cost incurred. At December 31, 2007 the Corporation changed the discount rate from 5% to 5.5% for purposes of calculating the accrued benefit obligation at December 31, 2007.

The adoption of these new assumptions has increased the accrued benefit obligations and the unamortized amount by approximately $4,184 and increased the net benefit asset by $1,339. The effect on net earnings for the year ended December 31, 2007 was to decrease net earnings by $291 or $0.07 per common share.

Capital Assets

The Corporation reviews on a regular basis the amortization periods of capital assets for changes in estimated useful lives.

Effective January 1, 2007 the Corporation has revised the estimated remaining lives of some of the domestic dry-bulk vessels and an ocean shipping dry-bulk vessel. The adoption of these new assumptions has increased net earnings by $2,169 or $0.56 per common share for the year ended December 31, 2007.

5. DISCONTINUED OPERATIONS

Discontinued operations consist of two tugs and one barge, each of which has separately identifiable cash flows, which were sold in 2006 due to adverse market conditions. For financial statement reporting purposes, the results of operations and the related carrying values have been shown as discontinued operations.

The results from discontinued operations are as follows:

	2007	2006
Operating expenses	**$ -**	$ (331)
Gain on disposals	**-**	1,133
Earnings before income taxes	**-**	802
Income tax provision	**-**	318
Earnings from discontinued operations	**$ -**	$ 484

The cash flows from discontinued operations are as follows

	2007	2006
Operating activities	**$ -**	$ (351)
Investing activities	**-**	4,790
Cash from discontinued operations	**$ -**	$ 4,439

6. INTERESTS IN JOINT VENTURES

The Corporation has an interest in Marbulk Canada Inc. with CSL Group Inc., an unrelated corporation. Marbulk Canada Inc. owns and operates ocean-going vessels. Marbulk Canada Inc. is a participant in an international commercial arrangement, whereby the marketing and commercial operations of the vessel management are outsourced. Marbulk Canada Inc. accounts for its interest in this arrangement using the proportionate consolidation method.

The Corporation, through its wholly owned subsidiary, Algoma Central Properties Inc., has an interest in Seventy-Five Corporate Park Drive Ltd. with Meridian Credit Union Limited, an unrelated corporation. This joint venture owns an office building.

The Corporation's interest in Marbulk Canada Inc. and the real estate venture are accounted for using the proportionate consolidation method.

The Corporation also has an interest in Seaway Marine Transport with Upper Lakes Shipping Inc., an unrelated corporation. The Seaway Marine Transport partnership is reported in accordance with accounting for variable interest entities and therefore is fully consolidated in the results of the Corporation.

The Corporation's share in the revenues, expenses, net earnings, assets, liabilities and cash flows of these jointly controlled operations is as follows:

	2007	2006
Revenue	**$ 38,337**	$ 29,564
Expenses	**29,420**	23,711
Net earnings	**$ 8,917**	$ 5,853
Assets		
Current	**$ 6,502**	$ 5,988
Long-term	**26,065**	33,107
	$ 32,567	$ 39,095
Liabilities		
Current	**$ 2,195**	$ 8,072
Long-term	**4,802**	5,401
	$ 6,997	$ 13,473
Cash inflow (outflow) from:		
Operating Activities	**$ 11,180**	$ 8,417
Investing Activities	**(899)**	(1,720)
Financing Activities	**(5,216)**	(7,155)
	$ 5,065	$ (458)

7. FINANCIAL EXPENSE

The components of financial expense for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Interest expense on borrowings	$	3,657	$	3,347
Interest expense capitalized		(484)		-
Interest income on cash and cash equivalents		(1,710)		(930)
	$	1,463	$	2,417

8. INCOME TAXES

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

		2007		2006
Combined federal and provincial statutory income tax rate		35.4%		35.4%
Earnings from continuing operations before income taxes and minority interest	$	73,051	$	60,934
Expected income tax provision	$	25,882	$	21,572
Increase (decrease) resulting from:				
Amounts not included in income for accounting purposes but subject to tax		831		(361)
Tax applicable to earnings of minority interest		(3,355)		(2,699)
Foreign tax rates different from statutory rate		(6,101)		(3,702)
Effect of corporate tax rate reduction		(5,570)		(3,157)
Other		(207)		91
	$	11,480	$	11,744

The components of the income tax provision for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Current income tax	$	17,214	$	12,437
Future income tax		(5,734)		(693)
	$	11,480	$	11,744

The components of the future tax liability at December 31, 2007 and 2006 are as follows:

		2007		2006
Capital assets	$	28,194	$	35,076
Accounting income not currently taxable		16,441		16,366
Other		5,500		3,737
		50,135		55,179
Less current portion of future tax liabilities		20,850		21,276
	$	29,285	$	33,903

9. REFUNDABLE DIVIDEND TAXES

The Corporation has interests in two joint ventures which are classified as private corporations under The Income Tax Act. The private corporation status allows the joint ventures to receive a refund of a portion of the income taxes it has paid on investment income. The Corporation's share of the accrued balance of the refundable dividend tax at December 31, 2007 and 2006 amounts to $2,016 and $1,036. Refundable dividend tax is recoverable on payment of taxable dividends.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash balances with banks and investments in short term deposits. The cash and cash equivalents at December 31, 2007 and 2006 did not include any asset-backed commercial paper.

Cash and cash equivalents at December 31, 2007 and 2006 consist of the following:

	2007	2006
Cash in banks	**$ 18,848**	$ 52,040
Short-term deposits	**9,284**	3,205
	$ 28,132	$ 55,245

11. CAPITAL ASSETS

2007	Land	Amortizable Assets	Accumulated Amortization	Net
Domestic Dry-Bulk	**$ 96**	**$ 489,752**	**$ 384,052**	**$ 105,796**
Product Tankers	**-**	**138,130**	**19,186**	**118,944**
Ocean Shipping	**-**	**122,853**	**36,471**	**86,382**
Real Estate	**8,071**	**99,141**	**33,880**	**73,332**
	$ 8,167	**$ 849,876**	**$ 473,589**	**$ 384,454**

Amortizable assets at December 31, 2007 include $31,400 relating to the progress payments on new vessels and a new commercial building currently under construction. Amortization on these assets will commence when they are placed in service.

2006	Land	Amortizable Assets	Accumulated Amortization	Net
Domestic Dry-Bulk	$ 96	$ 477,684	$ 384,526	$ 93,254
Product Tankers	-	129,978	19,602	110,376
Ocean Shipping	-	119,628	37,735	81,893
Real Estate	8,071	93,333	30,222	71,182
	$ 8,167	$ 820,623	$ 472,085	$ 356,705

Amortizable assets at December 31, 2006 included $25,787 relating to progress payments on a vessel under construction. Amortization on this asset commenced in 2007.

12. EMPLOYEE FUTURE BENEFITS

The Corporation maintains two defined benefit pension plans and a defined contribution pension plan, which covers substantially all of its employees except for the majority of shipboard employees, who belong to pension plans not sponsored by the Corporation.

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 Corporation also provides other post-retirement benefits including life insurance and health care.

The Corporation 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, 2007 and June 1, 2005. The next required valuation for the defined benefit plans will be as of January 1, 2010 and June 1, 2008.

Information, in aggregate, regarding the Corporation's future benefit plans for the years 2007 and 2006 is as follows:

	Pension Plans		Other Benefit Plans	
	2007	2006	**2007**	2006
Plan Assets				
Fair market value, beginning of year	**$ 115,319**	$ 111,710	**$ -**	$ -
Actual return on plan assets	**583**	10,311	**-**	-
Benefits paid	**(6,770)**	(7,195)	**-**	-
Change in assumptions *(Note 4)*	**1,339**	-	**-**	-
Employee contributions to plans	**274**	115	**-**	-
Employer contributions to plans	**310**	378	**-**	-
Fair market value, end of year	**111,055**	115,319	**-**	-
Accrued Benefit Obligations				
Obligations, beginning of year	**99,042**	96,268	**3,901**	3,600
Current service cost	**3,339**	3,048	**211**	160
Interest cost	**5,483**	5,645	**231**	213
Benefits paid	**(6,821)**	(7,535)	**(110)**	(72)
Actuarial cost of plan improvement	**-**	1,580	**-**	-
Change in assumptions *(Note 4)*	**7,277**	-	**-**	-
Actuarial losses	**169**	36	**279**	-
Obligations, end of year	**108,489**	99,042	**4,512**	3,901
Actuarial plan surplus	**2,566**	16,277	**(4,512)**	(3,901)
Unamortized amounts	**4,331**	(9,572)	**1,478**	1,707
Net benefit asset (liability)	**$ 6,897**	$ 6,705	**$ (3,034)**	$ (2,194)

The net benefit asset of all employee future benefit plans of $3,863 and $4,511 at December 31, 2007 and 2006 consists of the following:

	2007	2006
Employee benefit assets		
Pension plans	**$ 12,357**	$ 11,922
Other benefit plans	**-**	-
Total	**$ 12,357**	$ 11,922
Employee benefit liabilities		
Pension plans	**$ 5,460**	$ 5,217
Other benefit plans	**3,034**	2,194
Total	**$ 8,494**	$ 7,411
	$ 3,863	$ 4,511

The actuarial plan surplus of the pension plans consist of the following:

	2007	2006
The Employee Pension Plan of Algoma Central Corporation	**$ 9,050**	$ 20,645
The Union Employee Pension Plan of Fraser Marine & Industrial	**770**	1,168
Supplementary Employee Retirement Plans	**(7,254)**	(5,536)
	$ 2,566	$ 16,277

The unamortized amounts consist of the following:

	Pension Plans		Other Benefit Plans	
	2007	2006	**2007**	2006
Unamortized transitional (asset) liabilities	**$ (5,426)**	$ (7,211)	**$ 414**	$ 712
Unamortized past service costs	**1,878**	2,021	**-**	-
Unamortized net loss (gain)	**7,879**	(4,382)	**1,064**	995
	$ 4,331	$ (9,572)	**$ 1,478**	$ 1,707

The Corporation's net benefit cost incurred and net benefit expense is as follows:

	Pension Plans		Other Benefit Plans	
	2007	2006	**2007**	2006
Current service cost	**$ 3,339**	$ 3,048	**$ 211**	$ 160
Interest cost on plan obligations	**5,483**	5,645	**231**	213
Expected return on plan assets	**(6,823)**	(6,553)	**-**	-
Net benefit cost incurred	**1,999**	2,140	**442**	373
Amortization of transitional obligations	**(1,733)**	(1,733)	**297**	196
Amortization of past service costs	**181**	108	**210**	-
Net benefit expense recognized	**$ 447**	$ 515	**$ 949**	$ 569

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

	2007		2006	
	Amount	**% of total**	Amount	% of total
Short term notes	**$ 4,139**	**3.6%**	$ 1,796	1.5%
Canadian bonds	**48,098**	**41.8%**	49,353	41.5%
Canadian equities	**29,849**	**25.9%**	31,425	26.4%
Foreign equities	**22,444**	**19.5%**	26,099	22.0%
Annuities	**10,553**	**9.2%**	10,168	8.6%
	115,083	**100.0%**	118,841	100.0%
Amount related to defined contribution plan	**(4,028)**		(3,522)	
	$ 111,055		$ 115,319	

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

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

	Pension Plans		Other Benefit Plans	
	2007	2006	**2007**	2006
Discount rate used for estimating accrued benefit obligation	**5.5%**	6.0%	**5.5%**	6.0%
Discount rate used for estimating interest cost included in net benefit cost incurred	**5.0%**	6.0%	**5.0%**	6.0%
Long-term rate of return on plan assets	**6.0%**	6.0%	**NA**	NA
Rate of compensation increases	**4.0%**	5.0%	**4.0%**	5.0%
Average remaining service period of active employees in years	**11**	11	**12**	12

The Corporation's growth rate of health care costs was estimated at 11% (2006 - 12%), with the rate trending to 6% per annum over the next three years. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would have the following effect for 2007.

	Increase	**Decrease**
Service and interest cost	$ 87	$ 57
Accrued benefit obligation	$ 380	$ 336

13. OTHER ASSETS

	2007	2006
Employee future benefits *(Note 12)*	**$ 12,357**	$ 11,922
Deferred financing charges	**-**	392
	$ 12,357	$ 12,314

14. LONG-TERM DEBT

		2007		2006
Secured non-revolving term loan, due January 20, 2015, interest fixed at 5.90%	$	14,000	$	-
U.S., $16,500, secured non-revolving term loan, due January 20, 2015, interest fixed at 5.69%		-		19,229
U.S., $5,800, secured, due June 30, 2017, interest floating at 6.20%		-		6,761
Mortgage, due June 1, 2007, bearing interest at 7.06%		-		6,894
Share of debt of Marbulk Canada Inc.				
U.S., $3,156, secured non-revolving bank loan, interest fixed at 5.09%		-		3,678
U.S., $1,476, secured non-revolving bank loan, interest fixed at 5.68%		-		1,720
		14,000		38,282
Less unamortized financing expenses		175		-
		13,825		38,282
Current portion		1,932		11,930
	$	11,893	$	26,352

Interest on long-term debt amounted to $2,295 and $1,988 in 2007 and 2006 respectively, of which $484 and nil respectively was capitalized to the cost of a vessel during the construction period.

Principal payments required to service the debt are as follows:

2008	$	1,932
2009		1,932
2010		1,932
2011		1,932
2012		1,932
Thereafter		4,340
	$	14,000

15. OTHER LIABILITIES

		2007		2006
Employee future benefits *(Note 12)*	$	8,494	$	7,411
Deferred revenue		587		852
	$	9,081	$	8,263

16. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common and preferred shares. At December 31, 2007 and 2006, there were 3,891,211 common shares and no preferred shares issued and outstanding.

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss balances are as follows:

		2007		2006
Unrealized losses on translation of financial statements of foreign self-sustaining operations	**$**	**(19,632)**	$	(3,035)
Unrealized loss on hedged instruments, net of income tax recovery of $115		**(208)**		-
		(19,840)		(3,035)
Retained earnings		**362,267**		316,313
	$	**342,427**	$	313,278

18. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

		2007		2006
Change in non-cash working capital				
Accounts receivable	**$**	**(17,470)**	$	(2,185)
Materials and supplies		**(1,516)**		(1,824)
Prepaid expenses		**(1,894)**		(3,347)
Income taxes recoverable		**2,062**		3,440
Accounts payable and accrued charges		**8,635**		7,574
	$	**(10,183)**	$	3,658
Interest paid	**$**	**2,568**	$	1,985
Income taxes paid	**$**	**15,332**	$	9,075

19. COMMITMENTS

The Corporation, including its share of commitments in its joint ventures, has commitments for capital expenditures at December 31, 2007 and 2006 of $309,115 and $30,253, respectively.

The commitments at December 31, 2007 relate primarily to the purchase of seven new tankers and its share of the cost to construct two maximum seaway size self-unloading vessels. Approximately $114,025 is due for payment in 2008, $65,918 is due in 2009, $110,432 is due in 2010, and $18,740 is due for payment in 2011.

The commitments at December 31, 2006 related primarily to the remaining payments for the construction of a new self-unloading ocean-going vessel which was paid in 2007.

20. FINANCIAL INSTRUMENTS

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates, foreign exchange rates and the degree of volatility of these rates.

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 long-term debt.

Interest rate risk

At December 31, 2007 the Corporation did not have any significant exposure to interest rate movements. The Corporation's bank loan has been fixed through an interest rate swap agreement expiring in 2015.

The fair value of the interest rate swap contract is based on amounts quoted by the Corporation's bankers to settle the contracts at a point in time. At December 31, 2007 the interest rate swap agreement had a negative fair value of $324 and at December 31, 2006 the interest rate swap agreements had a positive fair value of $223. The amounts have been recorded on the financial statements in accordance with the Corporation's hedge accounting policy.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation is exposed to credit risk from customers. However, the Corporation's businesses have a number of significant diverse customers, which reduces the concentration of credit risk.

Fair value

Based on management's best estimates, the book value of the Corporation's financial assets and liabilities approximate their fair value at December 31, 2007 and 2006.

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 financial results primarily from changes in exchange rates between the Corporation's reporting currency, the Canadian dollar, and the U.S. dollar.

For the year ended December 31, 2007 and 2006, 35% and 29% respectively of the Corporation's net earnings was generated outside of Canada. The Corporation's exchange risk on earnings of foreign subsidiaries is largely diminished due to both cash inflows and outflows being denominated in the same currency.

At December 31, 2007 and 2006, 29% and 25% respectively of the Corporation's total assets were denominated in U.S. dollars.

The Corporation has significant commitments due for payment in U.S. dollars and in Euros.
The Corporation mitigates the risk associated with the U.S. dollar payments principally through U.S. dollar cash inflows and foreign-denominated debt. The risk associated with the payments due in Euros is largely mitigated through foreign exchange forward contracts.

For the twelve months ended December 31, 2007, the Corporation recognized a loss of $129 related to a hedge that was determined to be ineffective and has been included in the net gain (loss) on translation of foreign-denominated assets and liabilities. At December 31, 2007, the foreign exchange forward contracts had a positive fair value of $188 and the embedded derivatives had an unfavourable fair value of $390.

21. CONTINGENCIES

Income taxes

In 1997, the Corporation sold substantially all of its forest lands and reported for income tax purposes a capital gain of $28,076. The Corporation determined the gain based on an independent appraisal on the forest lands as of December 31, 1971 in the amount of $34,868.

Canada Revenue Agency ("CRA") has audited the 1997 income tax return filed by the Corporation and is in disagreement with the December 31, 1971 valuation of the forest lands used by the Corporation. In 2003, CRA issued a Notice of Reassessment to the Corporation adjusting the valuation to $12,338.

The Corporation believes it has determined the gain correctly and is defending its position and has filed a Notice of Objection with the CRA. If the Corporation were to be unsuccessful, the estimated tax and accrued interest owing to December 31, 2007 would be approximately $11,000. In 2002, the Corporation deposited $11,000 with the relevant taxation authorities pending the outcome of the reassessment.

No provision has been made for additional income taxes in the financial statements, as it is not possible at this time to reasonably determine the ultimate liability, if any, that might arise from the reassessment.

Guarantees

The Corporation, including those provided by a wholly-owned subsidiary, has issued letters of guarantee to foreign shipyards in respect of the contractual obligations related to the construction of the new tankers. The guarantees provided are in the amount of $23,580 and represent the second and third installments on two new tankers. The Corporation has received letters of refund guarantees from the shipyards in the amount of $11,790 representing the first installments made on two tankers.

The Corporation has also provided a letter of guarantee to Transport Canada in respect of the Corporation's liabilities relating to the payment of certain harbour dues. The guarantee is in the amount of $1,050 with an expiry date of July 2008.

The Corporation has also provided a letter of guarantee to the City of St. Catharines in respect of the Corporation's liabilities relating to the completion of site plan on a new commercial building. The guarantee is in the amount of $173 with an expiry date of April 2008.

The Corporation legally has a minority interest in Laken Shipping Corporation ("Laken") and time charters marine transportation equipment owned by Laken, which is fully consolidated as a variable interest entity in the Corporation's consolidated financial statements. Pursuant to the terms of the shareholder agreements and the time charter agreement, the Corporation has indemnified the group owning the majority of the outstanding shares of Laken from any and all loss. The indemnification, which does not provide for a limitation to the maximum to be paid out under the indemnification, expires at the later of the expiration of the time charter agreements and the dissolution of Laken.

22. SEGMENT DISCLOSURES

The Corporation operates through four segments, domestic dry-bulk, product tankers, ocean shipping and real estate.

The domestic dry-bulk marine transportation segment includes the Corporation's domestic dry-bulk fleet, an interest in one tug / barge unit and a ship repair and marine engineering business. 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 pooled with those of Upper Lakes Shipping Inc., another Canadian ship owner, in the partnership. Each partner owns its vessels separately from the other partner. The partnership includes a total of 34 Canadian flagged vessels, 19 of which are owned by the Corporation. The dry-bulk vessels carry cargoes of raw materials such as coal, grain, iron ore, salt and aggregates and operate throughout the Great Lakes – St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. Twenty two vessels have self-unloading gear, which enables them to deliver cargoes at locations where there is no shore-side unloading equipment, and twelve bulk carriers, which unload by means of shore-side equipment.

The product tanker marine transportation segment includes ownership and management of the operational and commercial activities of four Canadian-flag tanker vessels. The tankers carry petroleum products on the Great Lakes, the St. Lawrence Seaway and the east coast of North America. It also includes the ownership of one product tanker through a wholly-owned foreign subsidiary engaged in world-wide trades.

The ocean marine transportation segment includes ownership of two ocean-going self-unloaders through a wholly-owned subsidiary and a 50% interest through a joint venture in an ocean-going fleet of five self-unloaders. The ocean vessels are engaged in the carriage of dry-bulk commodities in world-wide ocean trades. CSL Group Inc. owns the other 50% interest in the joint venture, Marbulk Canada Inc.

The real estate segment includes the ownership and management of commercial real estate in Sault Ste. Marie, St. Catharines, and Waterloo, Ontario. In Sault Ste. Marie, it manages a retail mall, two office buildings, and a residential apartment building and owns a hotel building operated by the Holiday Inn. In St. Catharines, properties include two commercial plazas, two light industrial buildings, two office buildings and a 50% interest of another office building and vacant land for future development. In Waterloo, the Corporation owns and manages three commercial office buildings.

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

	2007	2006
Revenues		
Domestic Dry-Bulk	**$ 413,398**	$ 400,461
Product Tankers	**78,719**	79,832
Ocean Shipping	**64,793**	44,813
Real Estate	**23,636**	22,887
	580,546	547,993
Earnings from Continuing Operations		
Operating earnings net of income tax		
Domestic Dry-Bulk	**$ 18,474**	$ 15,224
Product Tankers	**11,590**	14,553
Ocean Shipping	**15,685**	10,837
Real Estate	**4,827**	5,040
	50,576	45,654
Earnings of minority interest - *(Note 1)*	**(5,894)**	(4,918)
Not specifically identifiable to segments		
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities	**3,493**	(566)
Financial expense	**(1,463)**	(2,417)
Income tax	**5,731**	3,822
	$ 52,443	$ 41,575

Note 1 - The earnings of the minority interest are net of imputed income tax expense.

		2007		2006
Assets				
Capital Assets				
Domestic Dry-Bulk	**$**	**105,796**	$	93,254
Product Tankers		**118,944**		110,376
Ocean Shipping		**86,382**		81,893
Real Estate		**73,332**		71,182
		384,454		356,705
Not specifically identifiable to segments				
Current assets		**136,697**		145,280
Other		**12,357**		12,314
	$	**533,508**	$	514,299
Additions to Capital Assets				
Domestic Dry-Bulk	**$**	**29,629**	$	5,421
Product Tankers		**18,667**		30,633
Ocean Shipping		**23,733**		27,551
Real Estate		**4,662**		2,549
	$	**76,691**	$	66,154
Less capital asset additions included in accounts payable		**1,888**		455
Total per consolidated statement of cash flows	**$**	**74,803**	$	65,699
Amortization				
Domestic Dry-Bulk	**$**	**15,589**	$	16,219
Product Tankers		**5,866**		5,360
Ocean Shipping		**4,615**		4,385
Real Estate		**3,362**		3,199
	$	**29,432**	$	29,163

The Corporation has interests which carry on most of their operations in foreign jurisdictions. The Corporation's proportionate share of the assets and revenues in foreign jurisdictions at December 31, 2007 and 2006 is as follows:

		2007		2006
Capital assets	**$**	**156,808**	$	128,101
Revenues	**$**	**74,944**	$	53,187

Sales outside of Canada, primarily to the United States, were $162,704 in 2007 and $153,821 in 2006.

The Corporation has two customers whose revenues exceeded 10% of consolidated revenues in both 2007 and 2006. Sales to these two customers totalled respectively $71,537 and $70,857 in 2007 and $73,469 and $70,527 in 2006.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

FIVE-YEAR SUMMARY	2007	2006	2005	2004	2003
Revenue					
Domestic Dry-Bulk	$ 413,398	$ 400,461	$ 370,689	$ 353,046	$ 296,754
Product Tankers	78,719	79,832	63,954	53,594	50,024
Ocean Shipping	64,793	44,813	51,973	39,881	37,232
Real Estate	23,636	22,887	22,377	20,029	18,238
	$ 580,546	$ 547,993	$ 508,993	$ 466,550	$ 402,248
Net earnings	$ 52,443	$ 42,059	$ 31,476	$ 23,915	$ 11,739
Earnings from continuing operations	$ 52,443	$ 41,575	$ 30,856	$ 22,545	$ 11,042
Net earnings excluding corporate tax rate changes *(Note 1)*	$ 46,873	$ 38,902	$ 31,476	$ 23,915	$ 17,539
Amortization	$ 29,432	$ 29,163	$ 28,015	$ 25,435	$ 24,116
General and administrative expenses	$ 24,675	$ 21,450	$ 20,593	$ 20,818	$ 19,824
Cash flow from operations	$ 70,411	$ 82,013	$ 70,007	$ 41,752	$ 45,381
Dividends paid	$ 5,316	$ 4,935	$ 3,797	$ 3,803	$ 3,797
Capital asset additions					
Domestic Dry-Bulk	$ 29,629	$ 5,421	$ 1,466	$ 19,265	$ 3,400
Product Tankers	18,667	30,633	34,950	29,990	11,234
Ocean Shipping	23,733	27,551	60	21,320	6,652
Real Estate	4,662	2,549	1,455	18,690	977
	$ 76,691	$ 66,154	$ 37,931	$ 89,265	$ 22,263
Net capital assets					
Domestic Dry-Bulk	$ 105,796	$ 93,254	$ 103,930	$ 125,414	$ 119,059
Product Tankers	118,944	110,376	84,219	49,351	28,414
Ocean Shipping	86,382	81,893	57,739	64,328	45,816
Real Estate	73,332	71,182	66,050	67,268	50,990
	$ 384,454	$ 356,705	$ 311,938	$ 306,361	$ 244,279
EBITA					
Domestic Dry-Bulk	$ 33,700	$ 30,760	$ 22,789	$ 25,126	$ 29,507
Product Tankers	23,192	27,296	17,822	11,791	6,224
Ocean Shipping	22,150	14,830	19,308	13,371	9,791
Real Estate	10,955	11,155	10,876	9,772	9,180
	$ 89,997	$ 84,041	$ 70,795	$ 60,060	$ 54,702
Total assets	$ 533,508	$ 514,299	$ 469,801	$ 455,569	$ 402,431
Long-term debt including current portion	$ 13,825	$ 38,282	$ 41,158	$ 56,447	$ 42,234
Shareholders' equity	$ 362,663	$ 333,514	$ 294,019	$ 267,558	$ 250,752
LTD as % of shareholders' equity	4%	11%	14%	21%	17%
Return on capital employed *(Note 2)*	12.3%	11.3%	10.0%	8.6%	7.0%
Return on equity *(Note 3)*	15.1%	13.4%	11.2%	9.2%	4.7%
Common Share Statistics					
Common shares outstanding (000)	3,891	3,891	3,891	3,891	3,891
Earnings per share	$ 13.48	$ 10.81	$ 8.09	$ 6.15	$ 3.02
Earnings per share from continuing operations	$ 13.48	$ 10.69	$ 7.93	$ 5.80	$ 2.84
Cash flow from operations per share	$ 18.10	$ 21.08	$ 17.99	$ 10.73	$ 11.66
Quoted market value					
High	$ 148.00	$ 127.50	$ 92.00	$ 73.35	$ 64.00
Low	$ 122.00	$ 87.50	$ 70.00	$ 57.00	$ 41.00
Dividends per share	$ 1.40	$ 1.30	$ 1.00	$ 1.00	$ 1.00
Shareholders' equity per share	$ 93.21	$ 85.71	$ 75.56	$ 68.76	$ 64.44

The above Five-Year Summary should be read in conjunction with the Corporation's audited consolidated financial statements for these years.

Note 1. *Net earnings excluding corporate tax rate changes is net earnings before the effect on income tax expense of substantially enacted corporate income tax rate changes.*

Note 2. *Return on Capital Employed is earnings before interest expense and gains or losses on the translation of foreign-denominated long-term assets and liabilities, on an after-tax basis, expressed as a percent of average capital. Capital is long-term debt including the current portion plus shareholders' equity.*

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

Directors

H. Michael Burns (2) (3)
Vaughan, Ontario,
Corporate Director

William J. Corcoran, B.A. LL.B. (1) (2) (4) (5)
Kleinburg, Ontario,
Vice Chairman, Jarislowsky Fraser Limited

Peter R. Cresswell, P. Eng. (3)
Sault Ste. Marie, Ontario,
Corporate Director

Tim S. Dool, C.A. (4) (5)
St. Catharines, Ontario,
President and Chief Executive Officer,
Algoma Central Corporation

E.M. Blake Hutcheson (1)
Toronto, Ontario,
President and Chairman,
CB Richard Ellis Limited

Duncan N. R. Jackman (1) (2) (3) (4)
Toronto, Ontario,
Chairman, President
and Chief Executive Officer,
E-L Financial Corporation Limited

The Honourable Henry N. R. Jackman
O.C., K.St.J., O.Ont., C.D., LL.D.,
Toronto, Ontario,
Honourary Chair,
The Empire Life Insurance Company

Bruce J. Jodrey (1)
Windsor, Nova Scotia,
Chairman, President
and Chief Executive Officer,
CKF Inc.

Radcliffe R. Latimer (1) (2) (3) (4) (5)
Toronto, Ontario,
Corporate Director

The Honourable Roy MacLaren, P.C. (2) (3) (5)
Toronto, Ontario,
Corporate Director

Clive P. Rowe (2)
New York, New York,
Partner, SLS Capital

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

William S. Vaughan, B.C.L. (3)
Toronto, Ontario,
Partner, Heenan Blaikie, LLP

(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 Seaway Marine Transport Committee

Principal Officers

Radcliffe R. Latimer
Chairman

Tim S. Dool, C.A.
President & Chief Executive Officer

Greg D. Wight, C.A.
Executive Vice President &
Chief Financial Officer

David G. Allen, C.A.
Vice President, Finance

Robert E. Leistner, C.A.
Vice President,
Algoma Central Properties Inc.

Al J. Vanagas, C.E.T.
Vice President, Marine

Karen A. Watt
Vice President, Human Resources

William S. Vaughan, B.C.L.
Secretary

Shareholder Information

Banker:
The Bank of Nova Scotia

Auditors:
Deloitte & Touche LLP

Solicitors:
Heenan Blaikie, LLP

The Toronto Stock Exchange Symbol:
ALC

Share Registrar and Transfer Agent:
CIBC Mellon Trust Company
320 Bay Street, P. O. Box 1
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Shareholders' Meeting:
The Annual Meeting of Shareholders will be held at 11:30 a.m., Wednesday, April 30, 2008, at the St. Catharines Golf & Country Club, 70 Westchester Avenue, St. Catharines, Ontario

Contact Information

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Cleveland, Ohio, 44113
(216) 771-1999

Fleet

Cargo capacity in tonnes

Algoma Central Corporation
Self-Unloaders

CAPT. HENRY JACKMAN	GL	31,050
JOHN B. AIRD	GL	31,496
PETER R. CRESSWELL	GL	31,115
AGAWA CANYON	GL	24,435
ALGOBAY	GL/ES	34,381
ALGOLAKE	GL	33,508
ALGOMARINE	GL	26,548
ALGOPORT	GL/ES	31,902
ALGORAIL	GL	24,191
ALGOSOO	GL	32,004
ALGOSTEEL	GL	26,534
ALGOWAY	GL	24,486
ALGOWOOD	GL	32,760
SAUNIERE	GL/ES	23,805

Algoma Central Corporation
Bulk Carriers

ALGOCAPE	GL	27,125
ALGOISLE	GL	26,527
ALGONORTH	GL	29,210
ALGONTARIO	GL	28,591
ALGOVILLE	GL	31,182

Algoma Tankers
Petroleum Tankers

ALGOEAST	GL/ES	9,300
ALGOSAR	GL	11,500
ALGOSCOTIA	UO	17,980
ALGOSEA	UO	16,175
ALGONOVA (scheduled delivery date June 2008)	UO	11,240
ALGOCANADA (scheduled delivery date August 2008)	UO	11,240
ALGOMA HANSA (previously Amalienborg)	UO	16,175

Algoma Shipping Inc.
Self-Unloaders

BAHAMA SPIRIT	UO	43,789
HONOURABLE HENRY JACKMAN	UO	74,000

Marbulk Canada Inc.
Self-unloaders

AMBASSADOR	UO	36,663
EASTERN POWER	UO	67,833
NELVANA	UO	74,374
PIONEER	UO	36,848
WESER STAHL	UO	46,657

GL - Great Lakes and St. Lawrence River
ES - Eastern Seaboard of Canada
UO - Unlimited Ocean

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