ALGOMA CENTRAL CORPORATION

Interim Report to Shareholders

For the Three Months Ended March 31, 2012 and 2011

ALGOMA CENTRAL CORPORATION

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ALGOMA CENTRAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

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

This Management's Discussion and Analysis ("MD&A") of the Corporation should be read in conjunction with its consolidated financial statements for the years ending December 31, 2011 and 2010 and related notes thereto and has been prepared as of April 27, 2012.

The MD&A has been prepared by reference to the disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on the Corporation, including its 2011 Annual Information Form, is available on the SEDAR website at *www.sedar.com* or on the Corporation's website at *www.algonet.com*.

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

Caution Regarding Forward-Looking Statements

Algoma Central Corporation's public communications often include written or oral forward-looking statements. Statements of this type are included in this document and may be included in other filings with Canadian securities regulators or in other communications. All such statements are made pursuant to the safe harbour provisions of any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2012 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price and the results of or outlook for our operations or for the Canadian and U.S. economies. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

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

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; interest rate and currency value fluctuations; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates;

operational and infrastructure risks; general political conditions; labour relations with our unionized workforce; the possible effects on our business of war or terrorist activities;disruptions to public infrastructure, such as transportation, communications, power or water supply, including water levels; technological changes; significant competition in the shipping industry and other transportation providers; reliance on partnering relationships; on- time and on- budget delivery of new ships from shipbuilders and appropriate maintenance and repair of our existing fleet by third-party contractors; health and safety regulations that affect our operations can change and be onerous and the risk of safety incidents can affect results; a change in applicable laws and regulations, including environmental regulations, could materially affect our results; economic conditions may prevent us from realizing sufficient investment returns to fund our defined benefit plans at the required levels; our ability to raise new equity and debt financing when required; extreme weather conditions or natural disasters; our ability to attract and retain quality employees; the seasonal nature of our business; and, risks associated with the lease and ownership of real estate.

For more information, please see the discussion on pages 13 to 17 in the Corporation's Annual Information Form for the year ended December 31, 2011, which outlines in detail certain key factors that may affect the Corporation's future results. This should not be considered a complete list of all risks to which the Corporation may be subject from time to time. When relying on forward looking statements to make decisions with respect to the Corporation, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. The Corporation does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives and may not be appropriate for other purposes.

Summary of Quarterly Results

The results for the last eight quarters are as follows:

Year	Quarter	Revenue	Net earnings (loss)	Basic earnings (loss) per share
2012	Quarter 1	$ 66,131	$ (31,140)	$ (8.00)
2011	Quarter 4	$ 185,050	$ 33,358	$ 8.56
	Quarter 3	$ 184,234	$ 35,003	$ 9.00
	Quarter 2	$ 156,220	$ 17,496	$ 4.50
	Quarter 1	$ 57,186	$ (17,013)	$ (4.37)
2010	Quarter 4	$ 122,974	$ 7,693	$ 1.98
	Quarter 3	$ 108,111	$ 17,126	$ 4.40
	Quarter 2	$ 107,852	$ 10,939	$ 2.81

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

In addition, the comparability of the results for the first quarter of 2012 to those for the first quarter of 2011 is impacted significantly by the Corporation's acquisition, in April 2011, of certain vessels and partnership interests owned by Upper Lakes Group in the Corporation's domestic dry-bulk business (the "ULG Transaction"). The Corporation's reported first quarter results for 2011 reflect only a 59% interest in the business (revenues and the losses incurred by the partnership for the reason noted in the preceding paragraph) and the charter income from the Corporation's vessels. Had the ULG Transaction occurred on January 1, 2011, the financial results for the first quarter of 2011 would have included additional revenues totaling $4,819 and the net loss would have increased by $15,405 ($3.96 per share-total loss for the 2011 quarter would therefore have been $8.33) to reflect the inclusion of the former partner's share of the first quarter loss from the business, net of charter income and depreciation expense on the vessels the Corporation acquired from Upper Lakes Group.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall Performance

First Quarter Results

The Corporation is reporting a net loss for the three months ended March 31, 2012 of $31,140 compared to a net loss of $17,013 for the same period in 2011.

The increase in the loss was due primarily to the acquisition of the non-controlling interest in Seaway Marine Transport ("SMT") in April 2011. Partially offsetting this increase was a reduction in the mark-to-market loss recognizing the fair value of certain foreign forward exchange contracts.

The Domestic Dry-Bulk segment operating loss net of income tax increased from $23,127 to $34,110. The increase was due primarily to the ULG Transaction, resulting in the Corporation recognizing 100% versus 59% of the first quarter loss of the domestic dry-bulk fleet. As noted above, had the ULG Transaction occurred on January 1, 2011, the loss for the domestic dry-bulk segment for the first quarter of 2011 would have been $38,532, an increase of $15,405 compared to the reported figure. Taking this adjustment into account, the operating loss for the segment improved quarter over quarter as a result of increased revenues from the business. Although, as is traditionally the case, portions of the St. Lawrence / Great Lakes Waterway were closed during the winter this year, the extremely mild winter conditions in much of the Great Lakes Basin allowed the Corporation to operate two dry-bulk vessels on the Great Lakes throughout the winter season.

The Product Tanker segment operating earnings net of income tax decreased from $1,354 to $443 mainly as a result of reduced operating days due to regulatory dry-dockings of two tankers and an increase in professional fees incurred in connection with the arbitration process related to the refund of deposits on rescinded contracts to build three product tankers.

The operating earnings net of income tax for the Ocean Shipping segment for the three months ended March 31, 2012 were $4,504 compared to $2,924 for the same period in 2011. The increase was due in part to increased revenue days, as no vessels were on dry-dockings in 2012 versus one dry-docking in 2011, and partly due to settlement and collection of revenue relating to contract periods prior to 2012 which had not previously met the Corporation's revenue recognition criteria.

The Real Estate segment operating earnings net of income tax increased from $859 to $863.

Financial expense for the 2012 first quarter was $4,324 compared to $4,786 for 2011. The decrease was due largely to a reduction of $1,907 in the mark- to- market adjustment, recognizing the change in the period in the fair value of certain forward foreign exchange contracts. This decrease was partially offset by additional net interest expense of $1,445 relating to the refinancing completed in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net Earnings (loss)

The operating earnings (loss) net of income tax by segment for the three months ended March 31, 2012 and 2011 are as follows:

	2012	2011
Operating earnings (loss) net of income tax		
Domestic Dry-Bulk	$ (34,110)	$ (23,127)
Product Tankers	443	1,354
Ocean Shipping	4,504	2,924
Real Estate	863	859
	(28,300)	(17,990)
Impairment reversal on product tankers	-	5,066
Not specifically identifiable to segments		
Net gain on translation of foreign-denominated monetary assets and liabilities	1,235	902
Financial expense	(4,324)	(4,786)
Income tax recovery (expense)	249	(205)
Net loss	$ (31,140)	$ (17,013)

Revenue

Revenue by segment for the three months ended March 31, 2012 and 2011 is as follows:

	2012	2011
Domestic Dry-Bulk	$ 22,352	$ 15,927
Product Tankers	17,100	16,862
Ocean Shipping	19,192	17,119
Real Estate	7,487	7,278
	$ 66,131	$ 57,186

The increase in revenue for the Domestic Dry-Bulk segment was due primarily to the Corporation's share of the domestic dry-bulk fleet operations increasing from a proportionately consolidated 59% to 100% and increased revenue days in our Great Lakes business resulting from the mild winter weather conditions.

Revenue for the Product Tanker segment increased marginally, as decreases due to two regulatory dry-dockings were offset with increases resulting from improved utilization.

The Ocean Shipping revenue increase reflects increased revenue days and revenue from prior periods that did not meet the Corporation's revenue recognition criteria until 2012..

The increase in revenue for the Real Estate segment was due primarily to higher occupancy and rates at the Corporation's mall in Sault Ste. Marie.

Operating Expenses

The operating expenses by segment for the three months ended March 31, 2012 and 2011 are as follows:

	2012	2011
Domestic Dry-Bulk	$ 57,065	$ 40,185
Product Tankers	12,351	11,326
Ocean Shipping	12,237	11,657
Real Estate	4,272	4,402
	$ 85,925	$ 67,570

The increase in operating expenses of the Domestic Dry-Bulk segment was due primarily to the Corporation's share of the domestic-dry bulk fleet operations increasing to 100%. Partially offsetting this increase is a decrease in repair and maintenance costs incurred to prepare the domestic dry-bulk fleet for the upcoming navigation season.

The increase in operating expenses of the Product Tankers segment was due largely to the maintenance costs incurred during the required regulatory dry-docking of two tankers.

The increase in operating expenses of the Ocean Shipping segment was due primarily to general inflationary increases.

General and Administrative Expenses

General and administrative expenses for the three month period ended March 31, 2012 increased to $8,563 from $6,121 for the same period in 2011. The increase is due primarily to the Corporation's share of the general and administrative expenses attributable to the domestic-dry bulk vessels increasing to 100%, an increase in employee compensation and an increase in professional fees related to an on-going arbitration. These increases were partially offset by non-recurring professional fees incurred in 2011 related to the ULG Transaction.

Financial Expense

Financial expense for the three months ended March 31, 2012 and 2011 consists of the following:

		2012		2011
Interest expense on borrowings	$	3,751	$	1,805
Interest income on cash and cash equivalents		(143)		-
Amortization of financing costs		311		450
Interest capitalized on vessels under construction		(865)		(646)
Net interest expense	$	3,054	$	1,609
Mark to market for derivatives that are not eligible for hedge accounting		1,270		3,177
	$	4,324	$	4,786

Interest expense on borrowings increased as a result of the refinancing completed in 2011.

Net Gain on Translation of Foreign Denominated Assets and Liabilities

The net gain on the translation of foreign denominated assets and liabilities for the three months ended March 31, 2012 and 2011 consists of the following:

		2012		2011
Gain on U.S. dollar denominated debt	$	1,770	$	1,050
Loss on U.S. dollar denominated cash		(562)		-
Other		27		(148)
	$	1,235	$	902

The gain and loss on the U.S. dollar denominated debt and cash respectively are related to the translation to Canadian dollars of those items and resulting from changes in the value of the Canadian dollar against the U.S. dollar.

Income Tax

Income tax recovery increased to $12,844 for the three months ended March 31, 2012 when compared to $7,875 in 2011 due mainly to the higher operating loss.

The Canadian statutory rates for the Corporation for 2012 and 2011 are 26.3% and 28.3 % respectively. Any variation in the effective income tax rate from the statutory income tax rate is due mainly to the lower income tax rates applicable to foreign subsidiaries and the effect of any non-taxable gains or losses that have been included in earnings.

Comprehensive Loss

Comprehensive loss for the three months ended March 31, 2012 was $36,502 compared to a loss of $22,533 for the comparable period in 2011. The increase in the loss is due primarily to increase in the loss from operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Internal Controls over Financial Reporting

There have been no changes in the Corporation's internal controls over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Financial Condition, Liquidity and Capital Resources

Excerpts from the Statement of Cash Flows

Three months ended March 31	2012	2011	Increase (decrease) in cash
Net loss	$ 31,140	$ 17,013	$ (14,127)
Net cash (used) generated from operating activities	$ (3,207)	$ 6,447	$ (9,654)
Net cash used in investing activities	$ 11,036	$ 9,116	$ (1,920)
Net cash used in financing activities	$ 3,401	$ 3,220	$ (181)

Net Cash (used) generated from Operating Activities

The decrease in net cash generated from operating activities for the three months ended March 31, 2012 of $9,654 when compared to the similar period in 2011 was due primarily to the Corporation's share of the domestic dry-bulk loss from operations increasing to 100%.

Net Cash Used In Investing Activities

Cash used in investing activities for the three months ended March 31, 2012 of $11,036 was related primarily to construction progress payments made on the new *Equinox Class* vessels. The cash used in investing activities in 2011 was primarily for instalments made on the *Algoma Mariner*.

Net Cash Used By Financing Activities

Cash used by financing activities relates to loan repayments of $1,500 made in both the 2012 and 2011 periods on two term loans and dividend payments to shareholders at $0.50 per common share in 2012 and $0.45 in 2011.

Capital Resources

Management expects that cash and cash equivalents on hand at March 31, 2012 of $113,390, credit facilities and projected cash from operations for the remainder of 2012 will be sufficient to meet the Corporation's planned operating and capital requirements and other contractual obligations for the year.

The Corporation maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs. At March 31, 2012, the Corporation had $149,173 undrawn and available under existing credit facilities.

Contingencies

For information on contingencies, please refer to Note 26 of the consolidated financial statements for the years ending December 31, 2011 and 2010. There have been no significant changes in the items presented since December 31, 2011.

Transactions with Related Parties

There were no transactions with related parties for the three month period ended March 31, 2012 and 2011 other than transactions prior to April 14, 2011 with the Seaway Marine Transport partnership.

Contractual Obligations

The table below provides aggregate information about the Corporation's contractual obligations at March 31, 2012 that affect the Corporation's liquidity and capital resource needs.

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Repayment of long-term debt including equity debenture component	$ 6,000	$ 12,000	$ 7,500	$ 217,005	$ 242,505
Purchase of new *Equinox Class* vessels	117,168	123,837	-	-	241,005
Defined benefit pension payments	2,000	4,000	1,501	-	7,501
Other commitments	250	500	500	625	1,875
Total	$ 125,418	$ 140,337	$ 9,501	$ 217,630	$ 492,886

ALGOMA CENTRAL CORPORATION

Unaudited Condensed Consolidated Statements of Loss
For the Three Months Ended March 31, 2012 and 2011
(In thousands of dollars except per share figures)

	Notes	Three Months Ended March 31 2012	2011
REVENUE		$ **66,131**	$ 57,186
EXPENSES			
Operations		**85,925**	67,570
General and administrative		**8,563**	6,121
		94,488	73,691
LOSS BEFORE UNDERNOTED ITEMS		**(28,357)**	(16,505)
Depreciation of property, plant and equipment and investment properties		**(12,538)**	(9,565)
Reversal of impairment of property, plant and equipment		**-**	5,066
Financial expense	**5**	**(4,324)**	(4,786)
Net gain on translation of foreign-denominated assets and liabilities		**1,235**	902
LOSS BEFORE INCOME TAX RECOVERY		**(43,984)**	(24,888)
INCOME TAX RECOVERY		**12,844**	7,875
NET LOSS		**(31,140)**	(17,013)
BASIC LOSS PER SHARE	**8**	$ **(8.00)**	$ (4.37)
DILUTED LOSS PER SHARE	**8**	$ **(8.00)**	$ (4.37)

See accompanying notes to the unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Comprehensive Loss
For the Three Months Ended March 31, 2012 and 2011
(In thousands of dollars except per share figures)

	Three Months Ended March 31	
	2012	2011
NET LOSS	**$ (31,140)**	$ (17,013)
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized loss on translation of financial statements of foreign operations	**(6,372)**	(5,610)
Employee future benefits		
Actuarial gain, net of income tax	**1,276**	-
Unrealized gain (loss) on hedging instruments, net of income tax	**(266)**	90
	(5,362)	(5,520)
COMPREHENSIVE LOSS	**$ (36,502)**	$ (22,533)

See accompanying notes to the unaudited condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION

Unaudited Condensed Consolidated Balance Sheets
March 31, 2012 and December 31, 2011
(In thousands of dollars except per share figures)

	Notes	March 31 2012	December 31 2011
ASSETS			
CURRENT			
Cash and cash equivalents		**$ 113,390**	$ 132,316
Accounts receivable		**38,893**	77,469
Materials and supplies		**14,572**	13,016
Prepaid expenses		**6,016**	3,666
Income taxes recoverable		**36,025**	21,255
		208,896	247,722
DEPOSITS ON VESSEL CONSTRUCTION		**35,282**	35,971
ASSETS HELD FOR SALE		**1,805**	5,305
PROPERTY, PLANT AND EQUIPMENT	6	**488,837**	505,125
GOODWILL	3	**7,910**	7,910
INVESTMENT PROPERTIES		**71,896**	72,364
		$ 814,626	$ 874,397
LIABILITIES			
CURRENT			
Accounts payable and accrued charges		**$ 61,166**	$ 77,342
Dividends payable		**951**	906
Current portion of long-term debt	7	**4,754**	4,754
		66,871	83,002
DERIVATIVE LIABILITIES		**4,298**	2,489
DEFERRED INCOME TAXES		**48,991**	50,835
LONG-TERM DEBT	7	**224,385**	227,228
EMPLOYEE BENEFITS		**39,809**	42,123
		317,483	322,675
COMMITMENTS	12	**-**	-
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	8	**8,319**	8,319
CONTRIBUTED SURPLUS		**11,917**	11,917
CONVERTIBLE DEBENTURES	8	**4,632**	4,632
ACCUMULATED OTHER COMPREHENSIVE LOSS	9,10	**(12,873)**	(6,235)
RETAINED EARNINGS		**418,277**	450,087
		430,272	468,720
		$ 814,626	$ 874,397

See accompanying notes to the unaudited condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION

Unaudited Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended March 31, 2012 and 2011
(In thousands of dollars except per share figures)

	Share capital	Contributed Surplus/ Convertible debentures	(Note 9) Cash Flow Hedging Reserve	(Note 10) Foreign Currency Translation Reserve	Retained Earnings	Total Equity
BALANCE AT DECEMBER 31, 2010	$ 8,319	$ 11,917	$ (1,294)	$ (10,369)	$ 401,215	$ 409,788
Net loss	-	-	-	-	(17,013)	(17,013)
Dividends declared	-	-	-	-	(1,751)	(1,751)
Other comprehensive earnings (loss)	-	-	90	(5,610)	-	(5,520)
BALANCE AT MARCH 31, 2011	$ 8,319	$ 11,917	$ (1,204)	$ (15,979)	$ 382,451	$ 385,504
BALANCE AT DECEMBER 31, 2011	$ 8,319	$ 16,549	$ (418)	$ (5,817)	$ 450,087	$ 468,720
Net earnings	-	-	-	-	(31,140)	(31,140)
Dividends declared	-	-	-	-	(1,946)	(1,946)
Other comprehensive earnings (loss)	-	-	(266)	(6,372)	1,276	(5,362)
BALANCE AT MARCH 31, 2012	$ 8,319	$ 16,549	$ (684)	$ (12,189)	$ 418,277	$ 430,272

See accompanying notes to the unaudited condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2012 and 2011
(In thousands of dollars except per share figures)

	Notes	Three Months Ended March 31 2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Net loss		**$ (31,140)**	$ (17,013)
Items not affecting cash			
Depreciation of property, plant and equipment and investment property		**12,538**	9,565
Net gain on translation of foreign-denominated assets and liabilities		**(1,235)**	(902)
Reversal of impairment of property, plant and equipment		**-**	(5,066)
Income tax recovery		**(12,844)**	(7,875)
Financial expense		**4,324**	4,786
Other		**(463)**	(321)
		(28,820)	(16,826)
Net change in non-cash operating working capital		**35,578**	27,532
Cash generated from operations		**6,758**	10,706
Interest paid		**(6,370)**	(2,008)
Income taxes paid		**(3,594)**	(2,251)
Net cash (used in) generated from operating activities		**(3,207)**	6,447
INVESTING			
Additions to property, plant and equipment and investment properties		**(15,156)**	(9,116)
Proceeds on sale of vessels		**4,120**	-
Net cash used in investing activities		**(11,036)**	(9,116)
FINANCING			
Repayment of long-term debt		**(1,500)**	(1,500)
Dividends paid		**(1,901)**	(1,720)
Net cash used in financing activities		**(3,401)**	(3,220)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(17,644)**	(5,889)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCIES		**(1,282)**	(259)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**132,316**	42,802
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 113,390**	$ 36,654

See accompanying notes to the unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands of dollars except per share figures)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation (the "Corporation") is incorporated in Canada and is listed on the Toronto Stock Exchange. The address of the Corporation's registered office is 63 Church St, Suite 600, St. Catharines, Ontario, Canada. The condensed consolidated financial statements of the Corporation for the three month period ended March 31, 2012 and 2011 comprise the Corporation, its subsidiaries and the Corporation's interest in associated and jointly controlled entities.

Algoma Central Corporation owns and operates the largest Canadian flag fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway. The Corporation's Canadian flag fleet consists of nineteen self-unloading dry-bulk carriers, nine gearless dry bulk carriers and seven product tankers.

The Corporation has commitments for a significant investment in six state of the art new *Equinox Class* vessels for domestic dry-bulk service. The *Equinox Class* will provide much needed improvements in operating efficiency and environmental performance.

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Corporation's 28 – vessel domestic dry-bulk fleet. 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. This segment also includes a diversified ship repair and steel fabricating facility active in the Great Lakes and St. Lawrence regions of Canada.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of seven Canadian flag tanker vessels operating 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 worldwide trades.

The Ocean Shipping marine transportation segment includes direct ownership of two ocean-going self-unloading vessels 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 worldwide ocean trades.

The Corporation also owns commercial real estate in Sault Ste. Marie, Waterloo and St. Catharines, Ontario.

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

2. STATEMENT OF COMPLIANCE

The unaudited condensed consolidated financial statements are prepared on a going concern basis. The financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's Consolidated Financial Statements and the notes thereto for the years ended December 31, 2011 and 2010. The financial statements should be read in conjunction with the Corporation's Consolidated Financial Statements for the years ended December 31, 2011 and 2010.

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

The financial statements were approved by the Board of Directors and authorized for issue on April 27, 2012.

3. BUSINESS COMBINATION

On April 14, 2011, the Corporation concluded an agreement with Upper Lakes Group Inc. ("ULG") to acquire from ULG its 41% partnership interest in Seaway Marine Transport and related entities (collectively, "SMT") along with the vessels and assets owned by ULG and its affiliates and used by SMT in its Great Lakes – St. Lawrence Waterway domestic dry-bulk freight business (the "ULG Transaction").

Under the terms of the transaction, the Corporation acquired 11 vessels previously owned by ULG, consisting of four gearless and seven self-unloading bulk freighters. The Corporation also acquired ULG's interest in two gearless and two self-unloading bulk freighters that were owned jointly by the Corporation and ULG, as well as ULG's interest in a self-unloader then under construction at Chengxi Shipyard in China. In addition, ULG has novated in favour of the Corporation a contract for the construction of one gearless bulk freighter and the Corporation has reimbursed ULG for an instalment payment made in respect of that contract.

The preliminary allocation of the net purchase price for accounting purposes is as follows:

Cash and cash equivalents	$ 1,603
Accounts receivable	13,092
Materials and supplies	3,585
Prepaid expenses	1,271
Income taxes receivable	610
Assert held for sale	1,750
Property, plant and equipment	81,597
Accounts payable and accrued charges	(14,427)
Employee future benefits	(3,897)
Deferred tax liabilities	(4,739)
Total identifiable assets	80,445
Goodwill	7,910
Total cash consideration paid to vendor	$ 88,355
Less cash and cash equivalents acquired	1,603
Total Net Cash	$ 86,752

4. INTERESTS IN JOINT VENTURES

Prior to April 14, 2011, the Corporation had an interest in Seaway Marine Transport, a partnership with an unrelated party. The Corporation's vessels were commercially and operationally managed by Seaway Marine Transport.

The Corporation, through its wholly owned subsidiary Algoma Shipping Inc. and through a joint venture interest in Marbulk Canada Inc. owns and operates ocean-going vessels. Both the Algoma Shipping Inc. and Marbulk Canada Inc. vessels are participants in an international commercial arrangement. The management and maintenance of these vessels is outsourced.

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

The Corporation as of November 15, 2011, through its wholly owned subsidiary Algoma Tankers International Inc., participates in the Navig8 Chemical Group's Brizo8 Pool. This pool was established in March 2007 and has operations worldwide. The Navig8 pool has more than 40 members with 135 vessels serving many commercial segments. This new pool is not accounted for as a joint venture as the Corporation does not exercise joint control. Prior to November 15, 2011 the Corporation participated in Hanseatic Tankers, a foreign joint venture, which has been dissolved.

The Corporation’s interests in joint ventures are accounted for using the proportionate consolidation method. With the exception of the ULG Transaction and the dissolution of Hanseatic Tankers, there has been no change in the Corporation's ownership or voting interests in these joint ventures for the reported periods.

The Corporation’s share in the assets and liabilities and revenues, expenses and operating earnings of these jointly controlled operations is as follows:

	March 31 2012	December 31 2011
Current assets	**$ 13,453**	$ 15,214
Non-current assets	**$ 14,431**	$ 15,244
Current liabilities	**$ 5,861**	$ 6,740
Non-current liabilities	**$ 3,741**	$ 3,546

	Three Months Ended March 31	
	2012	2011
Revenue	**$ 19,361**	$ 28,672
Expenses	**13,569**	57,358
Operating earnings (loss)	**$ 5,792**	$ (28,686)

5. FINANCIAL EXPENSE

The components of financial expense for the three months ended March 31, 2012 and 2011 are as follows:

		2012		2011
Interest expense on borrowings	**$**	**3,751**	$	1,805
Interest income on cash and cash equivalents		**(143)**		-
Amortization of financing costs		**311**		450
Interest capitalized on vessels under construction		**(865)**		(646)
Net interest expense	**$**	**3,054**	$	1,609
Mark-to-market for derivatives that are not eligible for hedge accounting		**1,270**		3,177
	$	**4,324**	$	4,786

6. PROPERTY, PLANT AND EQUIPMENT

The Corporation has converted two product tanker construction contracts to an order for two *Equinox Clas*s vessels having approximately equal value. The Corporation made initial instalments on these two construction contracts of U.S. $32,640 which were previously included with the Product Tankers segment property, plant and equipment.

The Corporation will be satisfying a portion of the instalment obligations on the *Equinox Class* vessels by applying the deposits made on the converted product tankers contracts to these vessels, subject to certain conditions and, accordingly, these deposits were reclassified to the domestic dry-bulk segment.

In January 2012, U.S. $16,320 was applied to amounts owing for certain *Equinox Class* vessels. The remaining deposits were transferred to an *Equinox Class* vessel subsequent to the period end.

7. LONG-TERM DEBT

	March 31 2012	December 31 2011
Convertible unsecured subordinated debentures, due March 31, 2018, interest at 6.0%	**$ 63,231**	$ 63,044
Senior secured notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	**74,505**	76,275
Canadian $75,000, interest fixed at 5.52%	**75,000**	75,000
Senior secured non-revolving term loan, due October 20, 2014, interest fixed at 5.90%	**5,500**	6,000
Senior secured non-revolving term loan, due October 20, 2016, interest fixed at 5.02% to May 30, 2013	**18,500**	19,500
	236,736	239,819
Less unamortized financing expenses	**7,597**	7,837
	229,139	231,982
Current portion	**4,754**	4,754
	$ 224,385	$ 227,228

The Corporation is subject to restrictive and financial covenants with respect to maintaining certain financial ratios and other conditions under the terms of the Bank Facility and the Notes. At March 31, 2012 and December 31, 2011, the Corporation was in compliance with all of the covenants.

8. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common and preferred shares with no par value. At March 31, 2012 and December 31, 2011, there were 3,891,211 common shares and no preferred shares issued and outstanding.

The debentures are dilutive, but were not included in the calculation of diluted loss per common share because they are antidilutive for the three month period ended March 31, 2012 due to the net loss incurred for the period. There were no dilutive instruments as of March 31, 2011.

9. CASH FLOW HEDGING RESERVE

	March 31	
	2012	2011
Balance, beginning of year	**$ (418)**	$ (1,294)
(Loss) gain arising on change in fair value of hedging instruments entered into for cash flow hedges	**(346)**	198
Income tax recognized in other comprehensive earnings	**80**	(108)
Balance, end of period	**$ (684)**	$ (1,204)

10. FOREIGN CURRENCY TRANSLATION RESERVE

	March 31	
	2012	2011
Balance, beginning of year	**$ (5,817)**	$ (10,369)
Exchange differences on translating net assets of foreign operations	**(6,372)**	(5,610)
Balance, end of period	**$ (12,189)**	$ (15,979)

11. CAPITAL DISCLOSURES

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

- Provide sustained growth of shareholder value by earning long- term returns on capital employed in the 10% to 12% range.
- Maintain a strong capital base to gain investor, creditor and market confidence and to sustain future growth. In this regard, the Corporation will target to maintain a long-term debt to equity ratio of no greater than one to one. The Corporation views a one to one ratio as a maximum rate due to the capital intensive nature of the business.
- Pay regular quarterly dividends to shareholders.

The returns on capital employed over the five years ending December 31, 2011 of the Corporation ranged from 5.9% to 12.3%.

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

The Corporation's Board of Directors reviews the return on capital employed target on an annual basis and it reviews the level of dividends to be paid to the Corporation's shareholders on a quarterly basis. The nature of the Corporation's business results in periods in which the Corporation makes significant capital expenditures over extended periods. During these times, a large portion of the capital employed in the business will be invested in assets that are not yet generating revenues or operating earnings, and therefore the return on capital employed may be lower than the targeted range.

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

The debt to shareholders' equity ratio at March 31, 2012 and December 31, 2011 is as follows:

	March 31 2012	December 31 2011
Total long-term debt	**$ 236,736**	$ 239,819
Shareholders' equity	**$ 430,272**	$ 468,720
Debt to shareholders' equity ratio	**0.55 to 1**	0.51 to 1

12. COMMITMENTS

The Corporation has commitments for capital expenditures and other commitments at March 31, 2012 and December 31, 2011 of $250,382 and $257,171, respectively.

The commitments relate primarily to the purchase of four new maximum seaway size self-unloading and two gearless bulker vessels and commitments relating to required payments for its employee future benefit plans.

Annual expected payments are as follows: $99,313 due in 2012, $144,192 due in 2013, $4,250 due in 2014 and $2,627 due in 2015 and beyond.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

Fair value

The carrying value is equal to the fair value of financial assets consisting of cash and cash equivalents and accounts receivable and financial liabilities consisting of accounts payable and accrued charges and derivative liabilities.

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands of dollars except per share figures)

The values for long-term debt at March 31, 2012 and December 31, 2011 are as follows:

	2012	2011
Carrying value of long-term debt	**$ 236,736**	$ 239,819
Fair value of long-term debt	**$ 249,605**	$ 246,961

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

Fair value measurements recognized in the consolidated balance sheets

The fair value measurements, as provided by financial institutions, in the balance sheet include derivative assets (Level 2) of $50 (December 31, 2011 - $594) and derivative liabilities (Level 2) of $4,348 as of March 31, 2012 (December 31, 2011 - $3,083).

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

Risk management and financial instruments

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

Credit risk

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

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

	March 31, 2012		December 31, 2011	
	Base currency	**Canadian equivalent**	Base currency	Canadian equivalent
Canadian dollar balances	**$ 32,454**	**$ 32,454**	$ 61,085	$ 61,085
U.S. dollar balances	**$ 81,139**	**$ 80,936**	$ 70,040	$ 71,231
		$ 113,390		$ 132,316

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands of dollars except per share figures)

Canadian and U.S. dollar cash and cash equivalents are held primarily with a major Canadian financial institution and the risk of default of this institution is considered remote. Cash balances outside of Canada are also held with major financial institutions and are generally kept to a minimum.

Liquidity risk

The contractual maturities of non-derivative financial liabilities at March 31, 2012 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 61,166	$ -	$ -	$ -	$ 61,166
Dividends payable	951	-	-	-	951
Long-term debt including equity portion	6,000	12,000	7,500	217,005	242,505
Total	$ 68,117	$ 12,000	$ 7,500	$ 217,005	$ 304,622

Interest rate risk

The Corporation is exposed to interest rate risk because the Corporation borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

At March 31, 2012 and December 31, 2011, the Corporation did not have any cash flow exposure to interest rate movements for its outstanding debt, since all of the Corporation's debt have interest rates that have been fixed.

The following tables detail the notional principal amounts and remaining terms of interest rate swapcontracts outstanding at the end of the reporting periods.

	Average Fixed Rate		Notional Principal		Fair Value	
	March 31 2012	December 31 2011	March 31, 2012	December 31 2011	March 31 2012	December 31 2011
2 to 5 years						
Canadian dollar	5.90%	5.90%	5,833	$ 6,319	$ 300	$ 379
Canadian dollar	5.02%	5.02%	20,100	$ 20,288	$ 607	$ 799
			$ 25,933	$ 26,607	$ 907	$ 1,178

The interest rate swaps settle on a monthly basis.

Foreign currency exchange risk

At March 31, 2012 and December 31, 2011, 32% of the Corporation's total assets were denominated in U.S. dollars.

The Corporation's exposure to foreign currency fluctuations is related to its cash balances, deposits on vessel construction, net investment in foreign subsidiaries and long-term debt denominated in U.S. dollars. The Corporation does not hedge its investments in the subsidiaries as the currency positions are considered long-term in nature. At March 31, 2012 and December 31, 2011, the net investment in U.S. dollar foreign subsidiaries was U.S. $206,930 and $223,250, respectively, and the foreign currency denominated long-term debt outstanding was U.S. $75,000.

The Corporation has significant commitments due for payment in U.S. dollars. The Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join the Corporation's Canadian flag domestic dry-bulk fleet. For payments due in U.S. dollars for foreign vessels, the Corporation mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

The foreign exchange forward contracts are as follows:

	Notional Principal		Fair Value	
	March 31 2012	December 31 2011	March 31 2012	December 31 2011
U.S. dollar denominated contracts	$ 150,212	$ 164,037	$ 3,391	$ 1,311

U.S. dollar denominated contracts of $66,086 mature in 2012; $63,414 mature in 2013 and $20,712 mature in 2014.

Foreign Currency Sensitivity Analysis (after income tax)

Based on the Corporation's estimates, a ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce net earnings in the current year by $725.

Based on the balances at March 31, 2012 and December 31, 2011:

- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would decrease Other Comprehensive Earnings by $20,693 and $22,325, respectively.
- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total assets by $26,960 and $27,820, respectively.
- A ten-cent strengthening in the Canadian dollar relative to the U.S dollar would reduce total liabilities by $7,500.

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

14. SEGMENT DISCLOSURES

The following presents the Corporation's results from operations by reportable segment for the three months ended March 31, 2012 and 2011:

Revenues	2012	2011
Domestic Dry-Bulk	$ 22,352	$ 15,927
Product Tankers	17,100	16,862
Ocean Shipping	19,192	17,119
Real Estate	7,487	7,278
	$ 66,131	$ 57,186

Net Loss	2012	2011
Operating earnings (loss) net of income tax		
Domestic Dry-Bulk	$ (34,110)	$ (23,127)
Product Tankers	443	1,354
Ocean Shipping	4,504	2,924
Real Estate	863	859
	(28,300)	(17,990)
Impairment reversal on product tankers	-	5,066
Not specifically identifiable to segments		
Net gain on translation of foreign-denominated monetary assets and liabilities	1,235	902
Financial expense	(4,324)	(4,786)
Income tax recovery	249	(205)
Net loss	$ (31,140)	$ (17,013)

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands of dollars except per share figures)

Operating Expenses	2012	2011
Domestic Dry-Bulk	$ 57,065	$ 40,185
Product Tankers	12,351	11,326
Ocean Shipping	12,237	11,657
Real Estate	4,272	4,402
	$ 85,925	$ 67,570

Assets	March 31 2012	December 31 2011
Domestic Dry-Bulk	$ 325,635	$ 372,895
Product Tankers	187,726	214,458
Ocean Shipping	77,566	77,994
Real Estate	74,284	70,063
	665,211	735,410
Not specifically identifiable to segments		
Current assets	149,415	138,987
	$ 814,626	$ 874,397

Additions to Property, Plant and Equipment and Investment Property	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Domestic Dry-Bulk	$ 13,800	$ 4,143
Product Tankers	307	0
Ocean Shipping	-	260
Real Estate	367	658
	$ 14,474	$ 5,061
Amounts included in working capital	682	4,055
Total per consolidated statement of cash flows	$ 15,156	$ 9,116

Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands of dollars except per share figures)

Depreciation of Property, Plant and Equipment and Investment Property	Three Months Ended March 31 2012	2011
Domestic Dry-Bulk	$ 7,468	$ 4,615
Product Tankers	2,277	2,286
Ocean Shipping	1,673	1,689
Real Estate	1,120	975
	$ 12,538	$ 9,565

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