2008

ANNUAL REPORT

Algoma Central Corporation

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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 1,600 people.

With assets of approximately $706 million and revenue of approximately $689 million, the Algoma Central Corporation group includes Algoma Shipping Inc., Algoma Tankers Limited, Algoma Tankers International Inc., Fraser Marine & Industrial, Algoma Central Properties Inc., shares 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 flagged dry-bulk vessels. The operational and commercial activities of the Canadian flag dry-bulk fleet are managed by Seaway Marine Transport, a partnership with 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 six Canadian flag product tanker vessels. The Corporation also owns an additional foreign flag product tanker through a wholly-owned foreign subsidiary.

The Corporation also owns two ocean-going self-unloaders and three ocean-going geared bulk carriers through a wholly-owned foreign subsidiary and has an interest through a foreign joint venture in an ocean-going fleet of five self-unloaders. The seven ocean-going self-unloader 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	**2008**	2007
For the year		
Revenue	**$ 688,914**	$ 580,546
Net earnings	**$ 41,280**	$ 52,443
Operating ratio *(Note 1)*	**86%**	84%
Cash flow from operations	**$ 89,975**	$ 70,411
Capital asset additions	**$ 169,905**	$ 76,691
Dividends paid per common share	**$ 1.70**	$ 1.40
Earnings per common share	**$ 10.61**	$ 13.48
At December 31		
Total assets	**$ 706,092**	$ 533,508
Shareholders' equity	**$ 440,070**	$ 362,663
Long-term debt (including current)	**$ 95,184**	$ 13,825
Long-term debt as a percentage of shareholders' equity	**22%**	4%
Common shares outstanding	**3,891**	3,891
Equity per common share	**$ 113.10**	$ 93.21

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

Message to Shareholders

We are reporting net earnings of $41.3 million or $10.61 per share in 2008, a decrease of 21% compared to 2007 earnings of $52.4 million or $13.48 per share. Although these results are lower than the record earnings achieved in 2007, it should be noted that there are significant non-operating amounts included in the earnings of both years that impact the year over year comparability.

These amounts include a significant foreign exchange loss in 2008 and a significant foreign exchange gain and a one-time corporate tax rate adjustment in 2007. If the after-tax impact of these amounts were removed from both years, 2008 earnings would be ahead of the comparable 2007 earnings by 3%.

The Corporation's strategy is to balance cash inflows from foreign-denominated subsidiaries with the appropriate amount of foreign-denominated long-term debt. Unfortunately, in times of rapidly rising or falling currency exchange values this balancing process becomes misaligned and we are subject to significant fluctuation in foreign exchange gains or losses. Nonetheless, we feel this is the appropriate strategy for managing foreign-denominated long-term investments.

For the majority of the year, the Corporation continued to benefit from strong market demand and high utilization in all business segments. The fourth quarter was, however, impacted by reduced demand in some of our North American markets as a result of the global credit crisis.

We continued to experience revenue growth in all business segments, with the exception of Product Tankers. As a result our consolidated revenue increased to $688.9 million, an increase of 19% from the record consolidated revenue of $580.5 million achieved in 2007.

A significant portion of this overall revenue increase was due to increased fuel charges to our customers as a result of the unprecedented high cost of diesel and blended fuel oils incurred for the majority of the year. In addition, the acquisition of the three ocean-going bulk carriers, the *Algoma Spirit*, the *Algoma Guardian* and the *Algoma Discovery* in mid-year and the operation of the *Honourable Henry Jackman* for the entire year contributed to the overall increase in the 2008 revenue level.

The Product Tanker revenue in 2008 was virtually unchanged from the prior year. The positive impact of the addition of the *Algonova* during the fourth quarter and higher fuel recoveries were almost entirely offset by reduced revenues due to the scheduled regulatory dry-docking for our ocean-going product tanker, the *Algoma Hansa*.

The Corporation's capital base continued to grow with shareholders' equity increasing to $440.1 million and long-term debt including the current portion increasing to $95.2 million. Financial returns on this capital base did not, however, continue the growth trend we have seen over the past five years. There was a reduction in the return on capital employed to 9.9% in 2008, down from 12.3% in 2007 and 11.3% in 2006. The most significant reason for this decrease was that the majority of capital expenditures incurred in 2008 were for progress payments on capital assets that did not come into service in 2008 or had limited service in 2008. In addition the 2008 return on capital employed was negatively impacted by the significant increase in the accumulated other comprehensive earnings section of shareholders' equity arising from foreign exchange gains on the U.S. denominated net investments in our non-Canadian dollar denominated subsidiaries as a result of the strengthening of the U.S. dollar relative to the Canadian dollar. Return on equity also declined from 15.1% in 2007 to 10.3% in 2008.

In 2008 capital asset additions totalled $169.9 million. The majority of this amount was incurred on the following capital projects:

- Construction of a three story commercial office building in Henley Corporate Park. This building, 25 Corporate Park Drive in St. Catharines, Ontario was occupied in March 2008 and the final cost was $6 million.
- Construction of two 11,267 deadweight petroleum product tankers at Eregli Shipyard in Turkey. These vessels, the *Algonova* and *AlgoCanada* were delivered in 2008 and joined the Canadian flag tanker fleet in November 2008 and January 2009, respectively, with a final delivered cost of $43.6 million each.
- Construction of three 16,500 deadweight petroleum 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.
- Purchase of three ocean-going handy-sized bulk carriers for a total cost of $39.4 million. The Corporation took delivery of these vessels late in the second quarter of the year.

These capital expenditures were funded in equal measures from our strong cash flow from operations and from an increase in long-term debt.

The Corporation has total remaining capital commitments of approximately $203 million due primarily to seven vessels on order or under construction. We expect to fund a significant proportion of this amount from ongoing cash flow and we are currently working with our relationship bank to put in place the necessary financing to fund the balance. We expect this financing to be in place in the first half of 2009.

The new Hanseatic Tankers joint venture commenced operation in October 2008 when the *Algoma Hansa*, our 1998 built product tanker, joined the joint venture after completing a long-term charter arrangement with the previous owner. The next vessel to join Hanseatic Tankers will be a Bernhard Schulte vessel, the *Emmy Schulte*, which is the first 16,500 deadweight product tanker to be delivered from the Jiangxi Jiangzhou Union Shipyard in China. It is expected to join Hanseatic Tankers early in March 2009.

Once all partners' vessels are delivered by mid 2011, Hanseatic Tankers will consist of 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.

In spite of recent worldwide economic events that have impacted global shipping, the Corporation along with the other Hanseatic Tankers joint venture partners, Bernhard Schulte, Sloman Neptun and Intrepid Shipping continue to be confident in the long-term fundamentals that will impact the product tanker markets in these vessel size ranges.

The Corporation, in conjunction with other Canadian ship owners, continues to pursue its proposal to the Canadian Federal Government regarding the immediate elimination of the 25% import duty on new vessels. This 25% duty is required to be paid if a vessel is constructed outside of Canada and imported into Canada as a Canadian flag vessel. In today's age of global trade it is unfortunate that this punitive tax remains in place, in spite of the fact that there are no shipyards in Canada that have the capacity or facilities to build cost competitive new vessels of the size and type required by the Corporation.

Upon the arrival of the *Algonova* and *AlgoCanada* into Canada and their entry into Canadian flag service, we were required to pay this 25% import duty to the Federal Government which totalled $15.3 million for both vessels. This tax had to be paid, in spite of the fact that a product tanker has not been built in Canada since the early 1980's.

One of the Corporation's key strategic priorities over the next ten years will be the renewal of our domestic dry-bulk fleet of self-unloaders and bulk carriers. Although well maintained and productive, the majority of this fleet was built in the 1970's and early 1980's. The orderly renewal of this fleet will greatly enhance the Corporation's competitiveness and environmental performance as these vessels will be equipped with the latest technological advancements resulting in, amongst other benefits, reduced air emissions and improved ballast water treatment.

This 25% import duty, once intended as a shipbuilding policy, has clearly failed in that purpose, but worse, it now threatens to become an anti-marine transportation policy by impeding Canadian fleet renewal and creating undue economic pressure on those Canadian manufacturing and resource based industries that depend upon marine transportation. We are hopeful that, as our Federal Government seeks ways to renew Canada's transportation infrastructure and to improve Canada's environmental performance, they will act responsibly and introduce measures to eliminate this harmful import duty.

The Corporation continues to be proactive on the environmental front as the implementation of an ISO 14001 compliant Environmental Management System on our domestic product tanker fleet was completed and accreditation was granted by Lloyd's Register in June 2008. Our domestic dry-bulk fleet managed by Seaway Marine Transport will undertake a similar process in 2009 with the goal of achieving ISO 14001 accreditation by the end of the year. These Environmental Systems provide the framework for a structured approach to understanding and managing Algoma's impact on the environment.

In addition, both our domestic dry-bulk and domestic product tanker fleets are members of the "Green Marine" program. All members of "Green Marine" are to implement environmental improvement programs in the areas of aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases, cargo residue and other recycled waters. "Green Marine" participants are encouraged to implement specific best practices that will contribute to reducing the environmental impact of their business activities. Each participant'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 audited by an independent third party and communicated annually to the general public and stakeholders in a "Green Marine" annual report.

The Corporation recently concluded an agreement to terminate the lease with the tenant of our Sault Ste. Marie hotel property. We assumed control of the property on February 1, 2009 and the hotel is now operating as the Waterfront Inn & Conference Centre. We plan to spend approximately six million dollars on a modernization program which will include building improvements and new furnishings and fixtures. The Waterfront Inn & Conference Centre will continue to operate as a first-class, full service hotel and coincident with this modernization program the hotel will be re-branded.

The state of the North American and worldwide economies is precarious and most economic experts are in agreement that we are in a worldwide recession. Opinions differ on how long or deep this recession will be and therefore it is difficult to quantify how the Corporation will be affected. We are aware and concerned that a number of our customers have been adversely impacted by the current economic downturn and that this may lead to reduced requirements for our services from some sectors, however, we note that we have a well diversified market base, both in terms of industries and geographic regions served. The benefits of our diversification strategy should be very evident as we face these challenging times. The Corporation has a strong balance sheet and is well positioned to withstand an economic downturn. While it may be difficult to duplicate the stellar results achieved in 2006 through 2008 until global economies strengthen, we are confident that the storm will be weathered.

The Corporation is committed, in spite of the potential deterioration of our financial results during this economic crisis, to remain focused on our strategic priorities. These priorities include our goal of continuous improvement in key areas such as operational excellence, customer service, competitiveness and environmental management. Each business unit also has a more specific goal regarding the achievement of a safe and secure work place that is accident and incident free.

We are very proud of our dedicated and highly-skilled employees who consistently demonstrate their commitment to achieving the Corporation's goals while being guided by our shared values of integrity, responsibility, respect, leadership and teamwork. Concurrently our employees are committed to making our communities a better place to live through their enthusiastic support of the United Way program, two cancer fundraising initiatives, Run for the Cure and Relay for Life, and numerous other community causes. We are extremely 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 the Corporation's successes in 2008 and also wish to express gratitude to our Board of Directors for their strong leadership and guidance in overseeing the direction and governance of the Corporation.

On April 30, 2008 Mr. Tim Dool retired after 31 years with the Corporation, the last seven as President and Chief Executive Officer. We are pleased to note that Mr. Dool continues as a Director of the Corporation and as a valued advisor to the Board and management.

As well on April 30 after long-serving relationships with the Corporation, the Honourable H. N. R. (Hal) Jackman and Mr. Peter Cresswell retired as Directors of the Corporation.

The Honourable H. N. R. Jackman joined the Algoma Board in 1971 and served as Chairman for two terms from 1980 to 1991 and from 1997 to 2002. His service with the Corporation was interrupted for the period he served as Lieutenant – Governor of Ontario between 1991 and 1997.

Mr. Cresswell, who served with the Corporation for 45 years, was a member of the Corporation's Board of Directors from 1978 to his retirement and was President and Chief Executive Officer of the Corporation from 1990 to 2001. Mr. Cresswell was instrumental in developing and initiating the diversification strategy that the Corporation benefits from today.

We wish to thank Hal, Peter and Tim for their outstanding service to the Corporation and wish them all the best in their future endeavours.

Greg D. Wight, C.A.

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, 2008 and 2007 and related notes thereto, and has been prepared as at February 18, 2009.

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 change, weather conditions and the material risks and uncertainties identified by the Corporation and discussed on pages 23 to 26 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

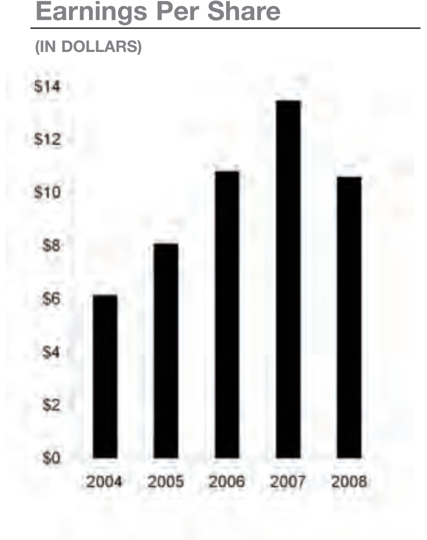
In 2008, the Corporation is reporting net earnings of $41,280 compared to net earnings of $52,443 for 2007. The decrease in net earnings was primarily due to foreign exchange losses incurred in 2008 compared to foreign exchange gains recorded in 2007 and a tax benefit recorded in 2007 for the reduction in future income tax rates. Earnings from operations, net of income tax and earnings of non-controlling interest, increased by 4% from 2007 from 2008.

The Domestic Dry-Bulk segment earnings improved as higher freight rates and additional operating days for the bulk carriers more than offset higher operating costs primarily due to lay-up spending. Higher fuel costs were recovered through fuel surcharges.

The improved earnings for the Ocean Shipping segment were a result of improved earnings from CSL International commercial arrangement, strong earnings from positioning cargos for vessels having scheduled regulatory dry-dockings performed in China and operation for the full year of the *Honourable Henry Jackman* which entered service August 1, 2007. Partially offsetting these improvements was an increase in scheduled regulatory dry-dock costs.

Earnings Per Share

(IN DOLLARS)



The Real Estate segment earnings were up slightly for 2008 due mainly to the gain on sale of a light industrial building and increased rental income.

Partially offsetting the improvements in the previous three segments is a decrease in the earnings of the Product Tankers segment. The Product Tankers segment earnings are down due to the costs and reduced revenue associated with the scheduled regulatory dry-dock of the *Algoma Hansa* (formerly the *Amalienborg*).

Amortization expense has increased as a result of a full year charge for the *Honourable Henry Jackman*, the addition of the three ocean-going geared bulk carriers, and the amortization of the investment in the life extensions of the *John B. Aird* and the *Algolake*.

Financial expense year-over-year was in line with the prior year as the cost of increased borrowings was offset by the capitalization of financing costs for projects under construction.

There was a foreign exchange loss in 2008 compared to a gain in 2007 due to the translation losses of debt denominated in U.S. dollars. During the later part of 2008 the Canadian dollar weakened significantly relative to the U.S. dollar after strengthening through 2007. The return of capital from foreign subsidiaries also caused a loss as the historical carrying value of the investment exceeded the foreign exchange rate prevailing at the time of the capital return. This was partially offset by foreign exchange gains on the translation to Canadian dollars of Euro denominated short-term investments.

The income tax expense was consistent between 2008 and 2007 despite a reduction in 2008 earnings before income taxes. In 2007 the Federal Government announced a reduction in future income tax rates. Consequently the benefit of the reduction in future liabilities was recognized at that time. No such benefit was realized in 2008.

Earnings per common share were $10.61 in 2008 compared to $13.48 for 2007. Earnings per share for 2008 when compared to earnings of the prior year before the future tax rate reduction and tax effected foreign exchange gains or losses and gain on sale of capital assets were ahead of last year.

Selected Annual Information

	2008	2007	2006
For year ended December 31			
Revenues	$ **688,914**	$ 580,546	$ 547,993
Earnings from continuing operations	$ **41,280**	$ 52,443	$ 41,575
Earnings per share from continuing operations	$ **10.61**	$ 13.48	$ 10.69
Net earnings	$ **41,280**	$ 52,443	$ 42,059
Earnings per common share	$ **10.61**	$ 13.48	$ 10.81
At December 31			
Total assets	$ **706,092**	$ 533,508	$ 514,299
Total long-term financial liabilities	$ **95,184**	$ 13,825	$ 38,282

Total assets increased in 2008 by $172,584 primarily due to an increase in net capital assets of $177,636. Capital asset additions during the year included payments of $72,423 on two new product tankers, $23,814 on deposits made during the year on product tankers under construction, $39,441 on the purchase of three ocean–going geared bulk carriers, $13,255 on progress payments for two maximum seaway size self-unloading forebodies and $16,162 for capital improvements on domestic dry-bulk vessels. Current assets decreased by $5,067. Cash and cash equivalents decreased by $16,332 due primarily to use for capital asset additions. This decrease was partially offset with an increase in income taxes recoverable of $13,646.

Long-term financial liabilities, which consists of long-term debt including the current portion, increased by $81,359 in 2008 primarily to assist in the financing of capital asset purchases.

Results of Operations

Net earnings for 2008 were $ 41,280 as compared to $52,443 for 2007.

The decrease in net earnings was mainly attributable to the following factors:

- Included in 2007 net earnings was a decrease in income tax expense of $5,570 due to announcements by the Canadian government to reduce in the future the corporate tax rate.
- A decrease in the earnings of the Product Tanker segment was primarily due to the costs and reduced revenue associated with the scheduled regulatory dry-docking of the *Algoma Hansa* (formerly the *Amalienborg*).
- A decrease in the amount of the translation of foreign denominated assets and liabilities from a gain of $3,493 to a loss of $4,699 in 2008. The change was due primarily to the fluctuation in the Canadian dollar against the U.S. dollar. In 2007 the Canadian dollar strengthened while in 2008 it weakened against the U.S. dollar.

The above decreases were partially offset by the following:

- The Domestic Dry-Bulk segment earnings improved as higher freight rates and additional operating days for the bulk carriers more than offset higher operating costs primarily due to increased lay-up spending. Higher fuel costs were recovered through fuel surcharges. Offsetting these increases was a gain realized in the prior year from the proceeds relating to an insurance claim for a damaged engine.

- The improved earnings for the Ocean Shipping segment were a result of improved results of the CSL International commercial arrangement, strong earnings from positioning cargos for vessels having scheduled regulatory dry-dockings performed in China and operation for the full year of the *Honourable Henry Jackman*. Partially offsetting these improvements was an increase in scheduled regulatory dry-dock costs.
- The Real Estate segment earnings were up slightly for 2008 due mainly to the gain on the sale of a light industrial building and increase rental income.

Net earnings by segment are as follows:

	2008	2007
Operating earnings net of income tax		
Domestic Dry-Bulk	$ 20,108	$ 18,474
Product Tankers	6,673	11,590
Ocean Shipping	21,135	15,685
Real Estate	5,256	4,827
	53,172	50,576
Earnings of non-controlling interest (Note 1)	(6,561)	(5,894)
Not specifically identifiable to segments		
Net (loss) gain on translation of foreign-denominated monetary assets and liabilities	(4,699)	3,493
Financial expense	(1,444)	(1,463)
Income tax	812	5,731
	$ 41,280	$ 52,443

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

Revenues

Revenue by business segment is as follows:

	2008	2007
Domestic Dry-Bulk	$ 487,751	$ 413,398
Product Tankers	78,848	78,719
Ocean Shipping	97,924	64,793
Real Estate	24,391	23,636
	$ 688,914	$ 580,546

Revenues of the Domestic-Dry Bulk segment increased by $74,353 or 18% in 2008 when compared to 2007. The increase in revenue was due primarily to increased fuel recoveries from customers. Increase in operating revenues were also a result of additional operating days and increases in freight rates.

The Product Tanker segment revenue, even though somewhat unchanged year over year, experienced increases in revenue due to the addition of the *Algonova* in the fourth quarter and improved freight rates. These increases however were almost entirely offset with reduced revenue due to the out-of-service days of the *Algoma Hansa* due to a scheduled regulatory dry-docking and fewer in charter days.

Ocean Shipping revenue increased significantly in the current year from $64,793 in 2007 to $97,924 in 2008. The increase was largely due to improved results of the CSL International commercial arrangement, the operation of the *Honourable Henry Jackman* for the entire year, the addition of three ocean-going geared bulk carriers and an increase in fuel recoveries.

The Real Estate revenue increase of $755 in 2008 is attributable primarily to the addition of the new office building in St. Catharines, Ontario.

Operating Expenses

The operating expenses by business segment are as follows:

		2008		2007
Domestic Dry-Bulk	$	**422,150**	$	351,141
Product Tankers		**55,832**		51,877
Ocean Shipping		**69,342**		42,050
Real Estate		**10,969**		10,350
	$	**558,293**	$	455,418

Operating expenses were $558,293 for the year ended December 31, 2008 compared to $455,418 in 2007 an increase of $102,875 or 23%.

The increase in operating expenses of the Domestic Dry-Bulk segment was due primarily to higher fuel costs, additional bulker operating days and an increase in the winter lay-up spending.

The increase in the operating expenses of the Product Tanker segment was due primarily to the dry-docking cost of the *Algoma Hansa* and higher fuel costs.

The increase in the operating expenses of the Ocean Shipping segment was due largely to the addition of the three ocean-going geared bulk carriers, the operation of the *Honourable Henry Jackman* for the full year in 2008, the costs associated with an additional planned regulatory dry-docking and higher fuel costs.

General and Administrative

General and administrative expenses were $26,802 for the year ended December 31, 2008 compared to $24,675 for the year before, an increase of $2,127 or 9%. The increase was due to additional compensation and associated costs required to support the Corporation's growth, higher pension expense based on a reduced return on pension assets and an increase in information technology costs incurred as part of systems upgrade projects.

Amortization

Amortization expense was $34,221 for the year ended December 31, 2008 compared to $29,432 in 2007.

The increase in amortization was due to the addition of the three ocean-going geared bulk carriers in 2008, the *Honourable Henry Jackman* for a full year, additional amortization in the Domestic Dry-Bulk segment due to recent capital improvements and an increase in the Real Estate segment due to an additional property.

Financial Expense

Financial expense includes interest expense on borrowings less interest earned on cash and cash equivalents and net interest capitalized. In 2008, financial expense was $1,444 versus $1,463 for the prior year. The decrease in the financial expense was not significant, however the amount of interest expense on borrowings increased from $3,657 in 2007 to $4,897 in 2008, most of which was related to additional borrowings related to new vessel construction and capitalized.

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

The net (loss) gain on the translation of foreign denominated assets and liabilities for 2008 and 2007 consists of the following:

		2008		2007
Gain on Euro cash deposits	**$**	**3,021**	$	-
(Loss) gain on U.S. long-term debt		**(6,620)**		5,950
Realized loss on return of capital from foreign subsidiaries		**(2,269)**		(2,480)
Other		**1,169**		23
	$	**(4,699)**	$	3,493

The gain on the Euro cash deposits relates to two Euro foreign exchange contracts the Corporation entered into to manage the foreign exchange exposure related to two product tankers that were constructed in Turkey. The contracts matured during the first and second quarter of 2008; however, the payments to the shipyard were not made on the expiration of the foreign exchange contracts due to the delays in the delivery of the two vessels. The Corporation invested the Euros it purchased in short term deposits until the payments to the shipyard were made in September and December 2008.

The Euro contracts were purchased at an average rate of 1.45. The Euro currency appreciated in terms of Canadian dollars since the foreign exchange forward contracts matured and the Corporation invested the Euros. In accordance with the Corporation's foreign exchange policy, the exchange gains that resulted from the translation of the Euro short term deposits to Canadian dollars was recorded in earnings. The final accounting cost of these vessels was recorded at the Canadian equivalent amount at the time the final Euro payments were made to the shipyard.

The loss in 2008 on the U.S. long-term debt relates to the translation to Canadian dollars of the Corporation's U.S. dollar denominated debt due to the weakening of the Canadian dollar against the U.S. dollar during 2008. The gains in 2007 were due to the strengthening of the Canadian dollar against the U.S. dollar prior to the repayment of the U.S. denominated debt. At December 31, 2008 and 2007 the Corporation had U.S. debt at $24,000 and nil, respectively.

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

Income Tax Provision

The income tax provision was $12,308 for the year ended December 31, 2008 compared to $11,480 in 2007. Included in 2007 was a decrease of $5,570 in income tax expense due to the announcement by the Canadian government to reduce in the future the corporate income tax rate. Excluding this adjustment in 2007, the income tax provision for 2007 would have been $17,050 compared to

$12,308 for 2008, a decrease of $4,742. This decrease in the income tax provision excluding the effects of the reduction in the future corporate tax rate was due primarily to the decrease in the net (loss) gain on the translation of foreign denominated assets and liabilities and a decrease in 2008 in the combined federal and provincial statutory income tax rate of 2.6%.

The effective income tax rate for 2008 was 19.4% compared to an effective rate of 15.7% for 2007. The Canadian statutory income tax rates for the Corporation for 2008 and 2007 were 33.5% and 36.1% respectively.

The variation in the effective income tax rate from the statutory income tax rate in both 2008 and 2007 was due primarily to lower income tax rates of certain foreign subsidiaries.

The increase in the effective income tax rate in 2008 was due primarily to the reduction in income tax expense of $5,570 in 2007 due to the future decrease in the Canadian corporate income tax rates.

Non-Controlling Interest

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

The earnings of the non-controlling interest in the amount $9,867 for the year ended December 31, 2008 compared to $9,128 in 2007 represents the other partner's proportionate share of earnings in the Seaway Marine Transport partnership.

Comprehensive Earnings

Comprehensive earnings are composed of the Corporation's net earnings and other comprehensive earnings or losses. Other comprehensive earnings or losses of the Corporation include unrealized gains and losses on the foreign currency translation of the net investment in foreign self-sustaining operations and changes in the fair market value of the interest rate swap agreements the Corporation utilizes on certain debt instruments to manage risks associated with interest rate movements.

As of December 31, 2008 the Corporation had in its Shareholders' Equity an "Accumulated Other Comprehensive Earnings" balance of $21,111 compared to a loss of $19,840 at December 31, 2007. The Accumulated Other Comprehensive Earnings (Loss) balance consists of the unrealized gains or losses on translation of financial statements of foreign self-sustaining operations and net unrealized losses on hedging instruments.

The increase in comprehensive earnings for 2008 was due primarily to unrealized gains in the year as a result of the weakening of the Canadian dollar against the U.S. dollar whereas in 2007 the Canadian dollar strengthened against the U.S. dollar resulting in unrealized losses on the translation of the net investment in foreign self-sustaining operations. At December 31, 2008 and 2007, 34% and 29%, respectively, of the Corporation's total assets were denominated in U.S. dollars.

The unrealized gains at December 31, 2008 would be reversed with a strengthening of the Canadian dollar against the U.S. dollar. The gains at December 31, 2008 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 the remaining Corporation's net investment in foreign subsidiaries.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

		2008		2007		Increase (decrease)
Net earnings	$	**41,280**	$	52,443	$	(11,163)
Cash provided from operations before changes in working capital	$	**94,374**	$	80,594	$	13,780
Cash provided from operations after changes in working capital	$	**89,975**	$	70,411	$	19,564
Cash used in investing activities	$	**167,796**	$	72,447	$	95,349
Cash provided (used in) financing activities	$	**59,567**	$	(23,449)	$	83,016

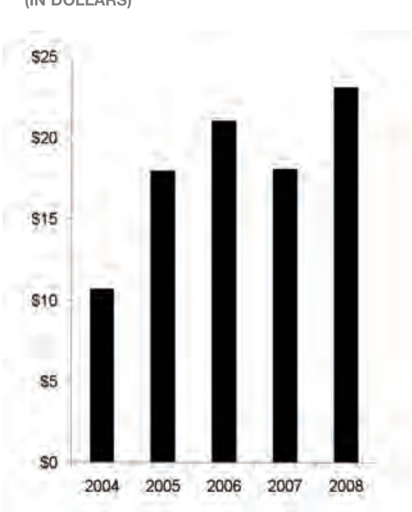
Cash Provided from Operating Activities

Cash provided from operations in 2008 was $89,975 compared to $70,411 in 2007. The increase in cash flow in 2008 when compared to 2007 of $19,564 was due primarily to an improvement in cash from operations and less cash used for working capital requirements.

All operating segments except the Product Tanker segment contributed to additional cash from operations. Working capital consumed less cash in 2008 due primarily to an improvement in cash from accounts receivable of $15,685 as a result of improved collections in 2008 of the Domestic Dry-Bulk and the Ocean Shipping segments. This increase in cash realized from accounts receivable was partially offset by an increase in income tax instalments.

Cash Flow from Operations per Share

(IN DOLLARS)



Cash Used in Investing Activities

Cash used in investing activities increased from $72,447 in 2007 to $167,796 in 2008 due mainly to an increase in additions to capital assets. In 2008, capital asset additions included the following:

- payments on the *Algonova* of $40,593 and the *AlgoCanada* of $31,830.
- the purchase of three ocean-going geared bulk carriers in the amount of $39,441.
- expenditures for Domestic Dry-Bulk vessels including life extension improvements on the *John B. Aird* and *Algolake* in the amount of $4,876, generator replacements and an spare engine in the amount of $8,706.
- deposits on the five new Hanseatic Pool product tankers in the amount of $23,814.
- payments on the two maximum seaway size self-unloading forebodies of $13,255.

In 2007, significant additions to capital assets included the addition of 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 *Tim S. Dool* (formerly 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.

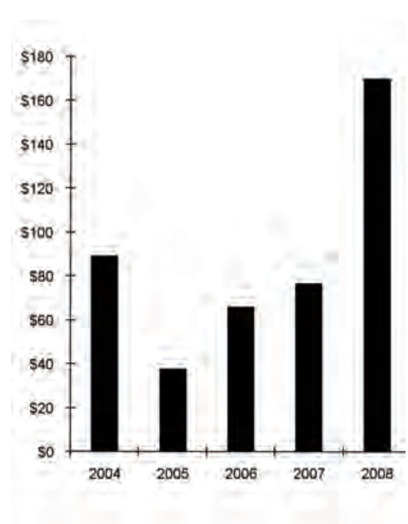
Cash Provided by or Used in Financing Activities

Cash provided from financing activities in 2008 was $59,567 compared to cash used of $23,449 for 2007.

The increase in cash from financing activities in 2008 was due primarily to proceeds from long-term debt to assist with the financing of capital asset purchases. For the twelve months ended December 31, 2008, the Corporation received $79,489 in net proceeds from long-term debt compared to $40,779 for the similar period in 2007. The cash from long-term debt in 2008 was used primarily for the purchase of the three ocean-going geared bulk carriers and for the purchase of the *Algonova* and *AlgoCanada*. The proceeds from long-term debt in 2007 related primarily to financing requirements for the completion of the *Honourable Henry Jackman* which was put in service on August 1, 2007.

Capital Asset Additions

(IN MILLIONS)



Repayments on long-term debt in 2008 were $4,750 representing the required instalments on the Corporation's two term bank loans. The 2007 repayments of $57,621 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 $1.70 in 2008 and $1.40 in 2007 per common share, totalling $6,455 in 2008 and $5,316 in 2007.

Capital Resources

Cash and cash equivalents on hand at December 31, 2008 of $11,800, existing credit facilities, expected cash from operations for 2009 and potential borrowing capacity will exceed the Corporation's planned operating and capital requirements and other contractual obligations for 2009.

The cash and cash equivalents on hand at December 31, 2008 did not include any asset-backed commercial paper.

The Corporation has significant capital asset purchase commitments over the next three years that will require the Corporation to raise additional financing. While the Corporation believes it has the financial strength to attract and service the additional debt, the recent economic instability created primarily by the worldwide banking and credit crisis may adversely affect the pricing of the debt. The Corporation is currently negotiating various financing alternatives with a number of financial institutions. It is expected the necessary financing will be in place during the first half of 2009.

Pension Plans

As a result of the recent market turmoil, the financial position of the Corporation's defined benefit plans has deteriorated significantly during 2008. At the last actuarial valuation of January 1, 2007, the Corporation's pension plans excluding the supplementary pension plan had a funding surplus of $18,100. If an actuarial valuation was prepared as of December 31, 2008 on the same basis as the January 1, 2007 valuation, the Corporation's pension plans would have an estimated funding deficit of approximately $6,500.

The decrease in the defined benefit plan funding surplus is due primarily to the losses sustained in the equities held by the pension plans.

For financial statement purposes the pension surplus is computed based on Section 3461 Employee Future Benefits of the CICA Handbook and can be significantly different than the surplus for funding purposes. The discount rate assumption used in computing the accrued benefit obligation for accounting purposes under Section 3461 is determined by reference to market interest rates on high-quality corporate long-term bonds which during the latter part of 2008 rose significantly due to credit market conditions. At December 31, 2008 and 2007 the discount rates used for determining the accrued benefit obligations were 7.3% and 5.5% respectively.

For pension plan funding purposes, the accrued benefit obligations are calculated with a discount rate which is the expected long-term rate of return on the plans assets. At the last actuarial valuation of January 1, 2007, the discount rate used was 6% which would also be the rate used with an actuarial valuation at December 31, 2008.

The increase in the discount rate used for accounting purposes has reduced the accrued benefit obligation by $18,537 which has virtually offset the decrease in the value of the assets experienced in 2008. The accounting surplus at December 31, 2008 of the Corporation's pension plans excluding the supplementary pension plan was $9,394 compared to an estimated funding deficit of $6,500.

The estimated funding requirements of the Corporation are based on the results of the triennial actuarial valuation of the plans. The next required actuarial valuation for the defined benefits plans is as of January 1, 2010 and June 1, 2011. While the impact of the pension plan funding requirements will be dependent upon the net funded position of the plans at the date of the next actuarial valuation, the Corporation does not expect its cash flows to be significantly impacted.

Contingencies

For information on contingencies, please refer to Note 19 of the consolidated financial statements.

Transactions with Related Parties

There were no transactions with related parties in 2008 or 2007.

Fourth Quarter 2008

The Corporation is reporting net earnings for the three months ended December 31, 2008 of $16,832 compared to $26,077 for the same period in 2007. This decrease in net earnings of $9,245 was due primarily to the following:

- Decreases in earnings of Ocean Shipping segment due to reduced results of the CSL International commercial arrangement.
- Decrease in earnings of the Product Tanker segment due primarily to lower than expected results for the *Algoma Hansa*.
- Increase in net foreign exchange losses of $3,289 resulting primarily from losses on the translation to Canadian dollars of U.S. dollar denominated debt due to the weakening of the Canadian dollar.
- A reduction of income tax expense in 2007 of $5,570 due to lower future corporate income tax rates.

Refer to the Corporation's news release announcing fourth quarter results dated February 18, 2009 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 other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. Those assumptions are disclosed in Note 11 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 of employees. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in accounting gains or losses as disclosed in Note 11 to the consolidated financial statements. The significant accounting assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the 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. The Corporation reviews for impairment whenever indications exist and at a minimum on an annual basis whether there are any signs of impairment in accordance with the Corporation's accounting policy.

Change in Accounting Policies

As required by the Canadian Institute of Chartered Accountants ("CICA"), the Corporation adopted CICA Handbook Section 3862, *"Financial Instruments – Disclosures"*, Section 3863, *"Financial Instruments – Presentation"*, Section 1535, *"Capital Disclosures"*, Section 3031, *"Inventories"* and amendments to Section 1400, *"General Standards of Financial Statement Presentation"*. These new or amended Sections are applicable to the Corporation for its interim and annual financial statements relating to fiscal years beginning on January 1, 2008. Accordingly, the Corporation has adopted the new and amended standards for its fiscal year beginning January 1, 2008.

Section 1535 *"Capital Disclosures"* establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.

The Corporation has included its capital disclosures in Note 17 to the financial statements.

Section 3862 *"Financial Instruments – Disclosure"* modifies the disclosure requirements for financial instruments that were previously included in Section 3861 *"Financial Instruments – Disclosure and Presentation"*. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- 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 *"Financial Instruments – Presentation"* established standards for the presentation of financial instruments and non-financial derivatives. The Corporation has included its enhanced financial instruments disclosure in Note 20 to the financial statements.

Section 3031 *"Inventories"*, require that inventories be measured at the lower of cost and net realizable value and also requires that net realizable value impairments be reversed, to the extent of the original write down, when warranted.

Amendments to Section 1400, *"General Standards of Financial Statement Presentation"*, were made to include requirements to assess and disclose an entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Corporation is not considered a going concern.

The adoption of these new and amended standards did not have any affect on the Corporation's results of its operations, financial position or cash flows.

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 in calculating such amounts. The most significant 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 of employees.

The assumptions are reviewed annually and the impact of any changes in the assumptions is disclosed in Note 11 to the consolidated financial statements for the years ending December 31, 2008 and 2007.

Effective December 31, 2007 the Corporation changed its assumptions on the discount rate from 5.0% to 5.5%. The 5.5% rate was used throughout 2008 for purposes of computing the net benefit cost incurred. Effective December 31, 2006 the Corporation changed the discount rate to 5.0% from 6.0% and the rate of increase of compensation to 4.0% from 5.0%. These rates were used throughout 2007 for purposes of computing the net benefit cost incurred.

At December 31, 2008 and 2007 the Corporation changed the discount rate from 5.5% to 7.3% and from 5.0% to 5.5%, respectively. The revised rates were used for purposes of calculating the accrued benefit obligation at December 31.

The adoption of these new assumptions has had the following effect on the consolidated financial statements.

		2008		2007
(Decrease) increase in accrued benefit obligation	$	**(20,237)**	$	4,184
Increase (decrease) in unamortized amounts		**20,065**		(5,232)
Increase in net benefit asset		**-**		1,339
Increase (decrease) in net earnings		**172**		(291)
	$	**-**	$	-

Future Accounting Changes

Business Combinations and Non-Controlling Interests

In January 2009, the AcSB issued Section 1582 *"Business Combinations"*, Section 1601 *"Consolidations"* and Section 1602, *"Non-Controlling Interests"*. Section 1582 replaces Section 1581 *"Business Combinations"* and provides the Canadian equivalent to IFRS 3 *"Business Combinations"*. Section 1601 and Section 1602 replace Section 1600 *"Consolidated Financial Statements"*. Section 1602 provides the Canadian equivalent to International Accounting Standard 27 *"Consolidated and Separate Financial Statements"* for non-controlling interests. These standards are effective January 1, 2011.

The Corporation is currently evaluating the impact of the above new standards on its consolidated financial statements.

International Financial Reporting Standards

The CICA exposure draft "Adopting IFRSs in Canada" proposes to incorporate International Financial Reporting Standards ("IFRS") into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The exposure draft makes possible the early adoption of IFRS by Canadian entities.

The Corporation has commenced the process to transition from current Canadian GAAP to IFRS. It has established a project team that is led by finance management and will include representatives from various areas of the Corporation as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

The implementation of IFRS consists of three primary phases as follows:

- Scoping and diagnostic phase. This phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. As a result of these procedures, the potentially affected areas are ranked as high, medium or low priority.
- Impact analysis, evaluation and design phase. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.
- Implementation and review phase. This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Corporation's finance group and other staff, as necessary.

The Corporation's preliminary analysis of IFRS and comparison with Canadian GAAP has identified a number of differences. Many of the differences identified will not have a material impact on the reported results and financial position. However, there may be significant changes in certain areas following the implementation of IFRS accounting principles.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings on the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated and are applied prospectively, will only be made as of the first day of the year of adoption.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Corporation is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the Corporation's circumstances.

Set out below are the key areas where changes in accounting policies are expected that may impact the Corporation's consolidated financial statements. The list and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas we believe to be most significant, however, analysis of changes is still in process and not all decisions have been made where choices of accounting policies are available. The differences described below are those existing based on Canadian GAAP and IFRS today. At this stage, the Corporation has not quantified the impacts expected on its consolidated financial statements for these differences.

a. Property, Plant and Equipment

International Accounting Standard ("IAS") 16, "Property, Plant and Equipment" defines property, plant and equipment as tangible items that are held for use in the production or supply of goods and services, for rental to others and are expected to be used during more than one period. This definition differs from Canadian GAAP in that it does not include real estate property, which under IFRS is included in Investment Property.

IFRS and Canadian GAAP contain the same basic principle for property plant and equipment, however there are some differences. IFRS requires that major parts of an asset be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property, plant and equipment to be measured at fair value or at amortized cost.

IFRS 1 contains an elective exemption where the Corporation may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition.

b. Investment Property

IAS 40, "Investment Property" defines investment property as land or a building, or part of a building, or both, as property held to earn rentals or for capital appreciation or both. The Corporation's real estate assets are considered Investment Property under IFRS.

IAS 40 offers options for measurement of investment property after initial recognition, the cost model or the fair value model.

IFRS 1 contains an elective exemption where the Corporation may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition.

c. Impairment of Assets

Canadian GAAP impairment testing compares the asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable, the carrying values are written down to estimated fair value.

International Accounting Standard ("IAS") 36, "Impairment of Assets", uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

However, the extent of any new write downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have reduced. Canadian GAAP prohibits reversal of impairment losses.

d. Employee Benefits

IAS 19, "Employee Benefits", requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight line basis until the benefits become vested.

Under Canadian GAAP, past service costs are generally amortized on a straight line basis over the expected average remaining service period of active employees in the plan. In addition, actuarial gains and losses are permitted under IAS 19 to be recognized directly in equity rather than through profit or loss. IFRS 1, "First-Time Adoption of International Financial Reporting Standards", also provides an option to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings.

e. Provisions, Contingent Liabilities and Contingent Assets

IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.

f. Interest in Joint Ventures

IAS 31, "Joint Ventures" currently permits the proportionate consolidation or the equity method to account for interests in joint ventures. However, there is an IFRS exposure draft which is recommending only the equity method be permitted for accounting for joint ventures. The exposure draft prohibits the use of proportionate consolidation.

If the recommendations of the exposure draft are adopted as expected then the Corporation may be required to account for the joint ventures it has an interest in using the equity method rather than proportionate consolidation.

Internal Controls and Disclosure Controls over Financial Reporting

In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*, the Corporation's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), have evaluated the operating effectiveness of the Corporation's internal controls over financial reporting. 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.

Management assessed the effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2008. Based on this assessment, the CEO and CFO have concluded that the Corporation's internal controls over financial reporting are operating effectively as of December 31, 2008. Management determined that there were no material weaknesses in the Corporation's internal controls over financial reporting as of December 31, 2008. There have been no changes in the Corporation's internal controls over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting.

Beginning in 2008 the Corporation commenced using an accounting system that was developed to enhance its period end closing procedures and consolidated financial reporting. Implementation of additional components of the accounting system is planned to take place in the second quarter of 2009. Also in the first quarter of 2008 the Corporation implemented the payroll and human resources components of a new shipboard management system to streamline process flows.

During the fourth quarter of 2008 the Corporation transferred physical control and management of its file servers and related equipment to a third party. The third party specializes in information technology infrastructure maintenance. The measures were taken to improve business continuity planning.

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

As at the financial year ended December 31, 2008, 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 in accordance with *National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings*. Based on that evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2008, 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.

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, 2008, the interest rate swap agreements had a negative fair value of $3,514 and at December 31, 2007, the interest rate swap agreements had a positive fair value of $324. 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 fleet.

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 ROCE in 2008 decreased to 9.9% from 12.3% in 2007 primarily as a result of an increase in capital relating to progress payments on capital assets under construction that were not in service in 2008 or had limited service in 2008. In addition to the above, the 2008 ROCE was negatively impacted due to a significant increase in the accumulated other comprehensive earnings in shareholders' equity due to the unrealized gain in the year as a result of the weakening of the Canadian dollar against the U.S. dollar on the translation of the net investment in foreign self-sustaining operations.

Return on Capital Employed

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	Net earnings (loss)	Earnings (loss) per share
2008	Quarter 4	$ 196,402	$ 16,832	$ 4.33
	Quarter 3	$ 226,836	$ 18,523	$ 4.76
	Quarter 2	$ 196,969	$ 14,196	$ 3.65
	Quarter 1	$ 68,707	$ (8,271)	$ (2.13)
2007	Quarter 4	$ 185,134	$ 26,077	$ 6.70
	Quarter 3	$ 180,248	$ 21,580	$ 5.55
	Quarter 2	$ 163,136	$ 16,522	$ 4.25
	Quarter 1	$ 52,028	$ (11,736)	$ (3.02)

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 segments operating year round, a somewhat longer season for the Domestic Dry-Bulk fleet and the increase in our Real Estate segment.

Contractual Obligations

The table below provides aggregate information about the Corporation's contractual obligations at December 31, 2008, 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	$ 57,745	$ 10,614	$ 10,690	$ 16,465	$ 95,514
Capital asset purchases	90,678	112,760	-	-	203,438
Total	$ 148,423	$ 123,374	$ 10,690	$ 16,465	$ 298,952

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

- Payment of $7,229 for the 25% import duty on the *AlgoCanada*.
- 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 have remaining commitments of approximately $79,905.
- 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 $42,732.
- 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 $72,713.

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

The availability of crew for 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 the Corporation's 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 it has strong relations with each union representing its workers and does not expect 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 performing to the expectations 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 three of the 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 their cargos. 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 their 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 remaining commitments of approximately $203,000 for the construction of seven 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 is in place at each shipyard to ensure successful completion. In addition, the Corporation receives refund guarantees from the shipyards' bankers for instalments made by the Corporation.

A significant portion of the funding for the capital additions will come from internally generated cash flows, but due to the magnitude of the commitments additional financing will be required. The Corporation is currently working with its long tenured bank to ensure sufficient funds are available for the expansion.

Competitive Markets

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

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

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

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.

Environmental

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. Environmental issues such as aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases, cargo residue and other recyled water are being scrutinized world wide. Certain jurisdictions have created Emission Control Areas (ECA) that govern vessel emissions and fuel quality requirements. Further implementation of ECA's or similar environmental legislation could have a significant impact on the Corporation's operations and possibly its profitability.

The Domestic Product Tanker fleet completed its ISO 14001 Environmental Management System certification in addition to its current compliance with International Safety Management Code and ISO 9001 Quality Management Systems. The domestic dry-bulk fleet is in the process of implementing ISO 14001 in 2009. The Corporation's business segments are all in compliance with all applicable environmental laws and regulations. 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. Participants are required to implement specific best practices that will reduce the impact on the environment of its business activities. The results will be communicated annually to the general public.

Marine transportation remains the most environmentally friendly method for the transportation of large quantities of bulk commodities.

Regulatory

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. Declining 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 shown a slight recovery over the past year after generally decreasing over several prior 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 certain 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. A business continuity plan is under development for implementation in 2009.

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.

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 its customers. The Corporation believes that the credit risk for accounts receivable is limited due to the tight credit terms given to customers, minimal bad debts experience and a customer base that consists of a relatively few large industrial concerns in diverse industries and quasi-governmental agencies. Credit reviews are performed on an on-going basis.

Pension Plans

Current world economic conditions may prevent the Corporation from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any resulting increase in the funding requirements for the Corporation's defined benefit pension plans, although a use of resources, is not expected to have a material impact on its cash flows.

Domestic Dry-Bulk

The Domestic Dry-Bulk segment includes the activities of the Corporation's Canadian dry-bulk vessels, our interests in one U.S. flag tug and self-unloading barge and our ship repair and marine engineering business.

The commercial and operating functions required for the Corporation's Canadian flag dry-bulk cargo vessels, which includes 14 self-unloading vessels and five bulk carriers, are managed by Seaway Marine Transport ("SMT"), a partnership jointly owned by the Corporation and an unrelated party. SMT's responsibilities include marketing and sales, vessel traffic, vessel operations management, purchasing, accounting and administrative functions for the respective fleets.

In 2008, SMT operated a total of 22 self-unloaders and 13 conventional bulk carriers for both the Corporation and the other partner. In addition, SMT has a 25% interest in Laken Shipping Corporation located in Cleveland, Ohio. Laken Shipping Corporation owns a U.S. flag 10,200 net ton 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 and 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.

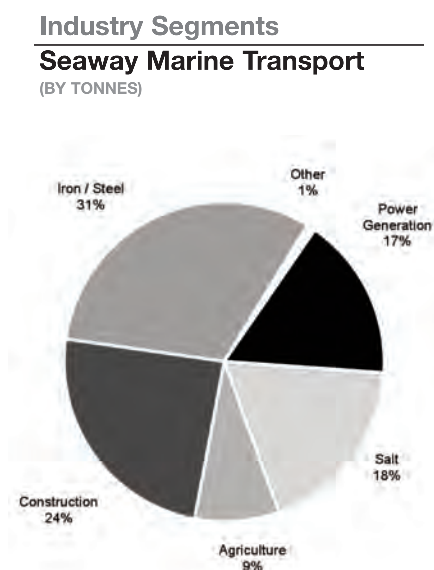
The SMT fleet is the largest and most diversified dry-bulk cargo fleet operating on the Great Lakes. The size of the fleet, together with a variety of unique vessel configurations, allows SMT to accommodate almost every dry-bulk shipping requirement. SMT is based in St. Catharines, Ontario and has a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

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.

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 is high.

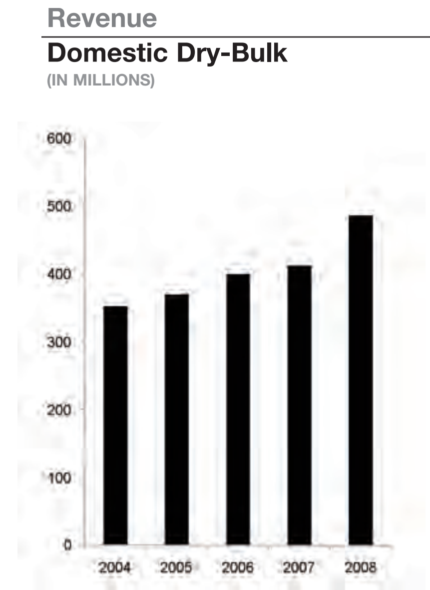
The self-unloader fleet carries iron ore and coal for steel producers, aggregate products, cement and gypsum for the construction and road-building industries, salt for road de-icing and other safety and commercial uses, coal for electric power generation, grain and fertilizers for the agriculture industry 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 fully comply with Canadian and U.S. regulations and the International Ship and Port Security (ISPS) Code.

Gross revenues of the Domestic Dry-Bulk segment increased from $413,398 in 2007 to $487,751 in 2008. About 50% of this increase relates to the recovery, through freight rates, of much higher fuel costs during the year. Increased bulker fleet activity, efficient scheduling of vessels and higher freight rates also contributed to the growth in revenues. This improved revenue helped increase operating earnings net of income tax to $20,108 from $18,474 in 2007.



Total vessel operating days in 2008 exceeded 2007 levels by 3.5%. Self-unloader operating days in 2008 were virtually flat over the prior year. Bulker operating days increased by 9.7% over 2007 levels. This increase was primarily attributable to the return of the *Tim S. Dool* to a full season of operations following the completion of the vessel's re-powering project in the fall of 2007. Total tonnage carried by SMT increased by 1.1% from prior year levels reflecting primarily growth in bulker iron ore movements.

Total cargo carried by SMT and SMT (USA) Inc. in 2008 for self-unloader customers was 29.2 million tonnes. This represented a 1.6% decline from 2007 levels. Reduced requirements for aggregate, iron ore and agricultural product shipments were partly offset by increases in coal shipments for power generation and salt shipments. Although SMT experienced a small tonnage reduction in 2008 from its self-unloader fleet, vessel utilization was maintained at prior year levels.

The amount of cargo carried by the bulker fleet increased by 11.8% from 2007 levels to 10.8 million tonnes. Incremental long haul shipments of iron ore from Lake Superior to St. Lawrence River transfer facilities made up the bulk of the increased bulker activity.

In 2008, SMT spent $54.7 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 $11.8 million. These projects included generator replacements, on certain vessels, and major steel renewals on the *Algolake* and *John B. Aird.*

Concern over low water levels on the Great Lakes abated somewhat in 2008 as increased rainfall throughout the Great Lakes Basin helped to increase water levels above chart datum. The outlook for 2009 water levels remains positive as above average precipitation levels have continued across the region.

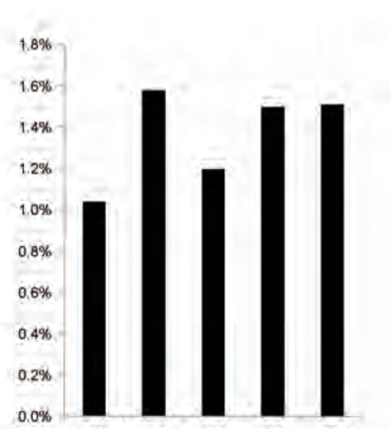
Effective cost control, operational excellence and continuous improvement are critical to SMT's goal of being the most competitive Great Lakes and St. Lawrence Seaway marine transportation service provider. Two key measures of quality performance are incident costs and non-productive days. In 2008, incident costs as a percentage of net revenue was held virtually flat at 1.5%. Non-productive days as a percentage of available days dropped to 2.4% from 4.4%, a year earlier. The reduction in non-productive days reflects the return of the *Tim S. Dool* to full-time service. SMT continues to focus its attention on these measures.

Fuel costs increased dramatically during 2008. Crude prices exceeded $130 U.S. per barrel by mid-summer, 2008, more than 40% higher than prices at the beginning of the year. In 2008 SMT recovered its fuel costs through freight rates. SMT has over the last few years significantly improved its fuel cost recovery.

Incident Costs

Domestic Dry-Bulk

(PERCENTAGE OF NET REVENUE)

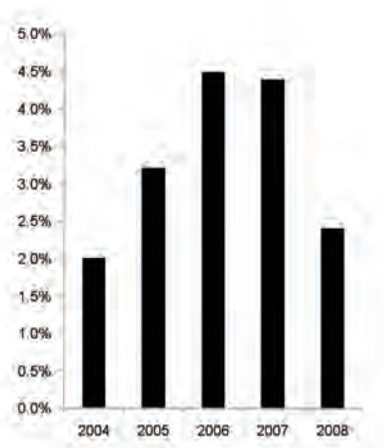


Salt shipments represented 18% of the cargo carried by SMT in 2008, up from 17% in 2007. Salt shipments improved in 2008 following very high demand for road safety salt during the prior winter season and in response to the expansion of salt production at a customer's facility. Power generation requirements represented 17% of all cargo carried in 2008, up from 16% in 2007. Coal shipments are expected to decline somewhat in 2009 as coal inventories are adjusted for lower than expected electricity usage in 2008, due to reduced summer cooling demand and in response to potential reductions in industrial and commercial electricity requirements in 2009. Agricultural product shipments decreased in 2008 to 9% of total activities from 10% in 2007. Much of this reduction is explained by a shift to the export of iron ore rather than grain. Grain crop conditions look favourable for 2009 exports. SMT's activity with steel producers remained stable in 2008 at 31% of all cargoes carried. Activity for construction material producers fell in 2008 to about 24% from 26% in 2007.

Non Productive Days

Domestic Dry-Bulk

(PERCENTAGE OF AVAILABLE DAYS)



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 ("CMSG"), Canadian Marine Officers Union ("CMOU") and the Seafarers International Union ("SIU") each have labour agreements with the Corporation that expire on May 31, 2011. Labour contracts covering vessels owned by the Corporation's partner in SMT expire in May 2010 ("CMSG") and March 2011 ("Canadian Autoworkers Union").

In 2006, SMT embarked upon a multi-year 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.

A new enterprise accounting system has been put into place at SMT. Upgraded vessel local area networks and computer hardware have been installed on each vessel. A two year project to install VSAT satellite broadband capability for voice and data communications on the SMT fleet was initiated and will be completed prior to the commencement of the 2009 operating season. VSAT satellite broadband service permits a new level of integration between ship based and shore based information systems that increase both the efficiency and effectiveness of our communication and business

systems. In 2008, SMT installed a new shipboard management and planned maintenance system onboard its vessels. The 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.

SMT as well as the Corporation have moved business computer hardware to a remote hosted data centre fully managed and monitored by a leading service provider. This move was undertaken to ensure that our computer systems, which house the business data assets, are managed to the strictest standards for secure systems availability, business continuity and stability. The remote hosted data centre is a fully-managed and monitored environment providing high security and high availability that is a strong foundation for business resiliency.

The Corporation announced on November 7, 2007 that it had 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* jointly with its partner in SMT. The original *Algobay* hull was towed to China during 2008 and work on the forebody project is presently underway at the Chengxi Shipyard. The completed vessels are expected to be in service during the fourth quarters of 2009 (*Algobay*) and 2010 (*Algoport*), respectively. The cost of these projects is approximately $130 million with the Corporation's share amounting to $65 million. This cost includes a modernization of the aft-ends of both vessels plus a 25% Canadian Federal import duty currently payable on the importation of new vessels into Canada. The Corporation continues to advocate the need to eliminate the 25% import duty as there are no shipyards in Canada that have the capacity or facilities to build vessels of the size and type required by it on a cost competitive basis. Upon re-delivery of the *Algobay* and *Algoport*, they will be bareboat chartered to SMT.

Although the diversity of SMT's markets brings some stability in the face of volatile markets, the markets served by SMT cannot be expected to be immune from potential impacts of the current global economic crisis. We note that North American and world production and demand for steel products and construction materials ended 2008 at very low levels. Most governments around the world, including Canada and the United States of America, have undertaken significant steps to address the global economic challenges that many industries face by addressing underlying financial problems and stimulating economic activity. We expect these initiatives will help to stabilize market segments such as steel production and construction materials in 2009. Other market segments served by SMT are less impacted by the current economic challenges and are more affected by other variables as winter driving conditions for salt demand, the demand for electricity and the supply and demand for grain products for export markets.

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 gross margins and operating earnings even though total revenues decreased slightly in 2008. Annual revenue fluctuations are a result of shipping company year to year repair variances. FMI continues to make positive contributions 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, on budget and to a high standard of quality.

FMI has a Collective Bargaining Agreement with the Steelworkers of America Union which is up for renegotiation in May 2009.

Product Tankers

The Corporation's Product Tanker segment consists of six product tankers employed in domestic Canadian flag service plus one product tanker employed in international trades. The domestic fleet is owned and operated through a wholly owned subsidiary, Algoma Tankers Limited ("ATL") and the international product tanker is owned and operated through a wholly owned subsidiary, Algoma Tankers International Inc. ("ATI").

The domestic fleet's primary function is to provide transportation services for liquid petroleum products throughout the Great Lakes, St. Lawrence Seaway and Atlantic Canada regions. Our customers, who demand the highest levels of quality and service, include major oil refiners, leading wholesale distributors and large consumers of petroleum products.

The foreign flag product tanker is a sistership to the *Algosea*, which trades as part of the domestic fleet. In October, 2008 this ship was renamed *Algoma Hansa* and it became the first vessel to join Hanseatic Tankers. Hanseatic Tankers is a new international product tanker venture formed by ATI, Bernhard Schulte of Hamburg Germany, Sloman Neptune of Bremen, Germany and Intrepid Shipping LLC of Stamford, Connecticut. Hanseatic Tankers will eventually include twenty-four vessels. In addition to the *Algoma Hansa*, the partners are building seventeen 16,500 dead-weight tonne ("DWT") and six 25,000 DWT product tankers in two yards in China. ATI is contributing three of the new 16,500 and two of the new 25,000 DWT tankers. Delivery for all of the new ships will be staggered throughout 2009, 2010 and early 2011 with ATI's vessels scheduled for delivery in 2010 and 2011.

In 2008, two new product tankers were added to the domestic product tanker fleet. These vessels, which are sisterships, were built by the MedMarine Group of Eregli, Turkey and are named *Algonova* and *AlgoCanada*. The delivery of each of these vessels from the yard was delayed by several months due to procurement and scheduling problems at the shipyard. The *Algonova* arrived in Canada in November 2008 and commenced trading shortly thereafter. The *AlgoCanada* was travelling enroute to Canada at December 31, 2008, arriving in Canada in early January, 2009. It also commenced operations shortly after arrival. These high quality, 11,267 DWT product tankers are perfectly suited for our customer needs in Great Lakes, St. Lawrence and Atlantic Canada ports. They are capable of unlimited ocean voyages and meet all modern double hull, safety and environmental requirements for engine emissions and cargo handling. The vessels feature an ice class 1A hull design and specification for year round operations in Canada.

The *Algonova* and *AlgoCanada* join the Corporation's *Algoscotia* (built in 2004), the *Algosea* (built in 1998), the *Algosar* (built in 1978) and the *Algoeast* (built in 1977 and converted to a full double hull in 2000). Since 2006, all single-hull product tankers owned by the Corporation have been removed from service. The domestic product tanker fleet is the most modern fleet operating in our service area. The fleet has a total deadweight capacity of 96,564 tonnes or 660,515 barrels.

The total cost of the two new product tankers is $87.2 million including Canada's 25% import duty on foreign built ships. The Corporation continues to advocate for the immediate elimination of the 25% import duty for ships of the size needed for its domestic product tanker and dry-bulk fleets and it has filed an import duty remission application with the Canadian Government in respect to the *Algonova* and *AlgoCanada*. The Corporation has cited its concerns over the capability of shipyards in Canada to build ships of the size required by the Corporation for its domestic product tanker and dry-bulk businesses. We have also identified to the Federal Government the punitive impacts that the 25% import duty has on domestic shipping in Canada and on those Canadian industries and consumers that require competitive, safe and environmental preferred marine transportation services. It is important to note that there are no comparable import duties affecting road or rail transportation vehicles. 2

Gross revenues of $78,848 in 2008 were virtually unchanged from the prior year. The positive impact of the addition of the *Algonova* during the fourth quarter and higher fuel recoveries were almost entirely offset by reduced revenues due to the regulatory dry-docking of the *Algoma Hansa*. Operating earnings net of income tax fell by 42% from $11,590 in 2007 to $6,673 in 2008 due to the regulatory dry-docking of the *Algoma Hansa*.

The domestic fleet's technical and commercial operations are managed by our team of professionals in St. Catharines, Ontario. This group is focused on customer service, quality, performance, safety, security and environmental responsibilities. The domestic fleet's ship managers have captured the essence of their focus on continuous improvement in one, three part statement which forms part of the 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 achieve operational excellence, which is consistently met.

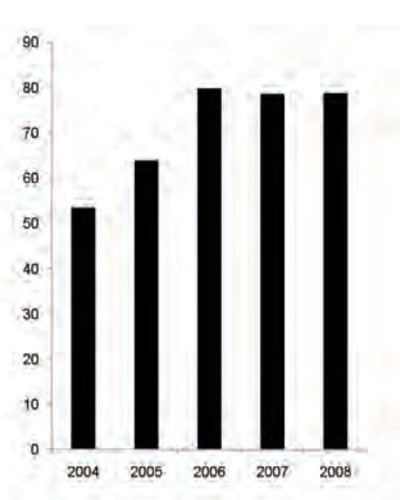
Operational Excellence has at its base, the Continuous Improvement Cycle of "Plan - Do - Check - Act". This approach drives ATL's quality, safety and environmental management systems. We emphasize visible leadership, accountability, positive communication and commitment with both our shore-side and shipboard personnel.

Two key performance indicators are incident costs, expressed as a percentage of net revenue and non productive days, expressed as a percentage of available days. Over the past year incident costs as a percentage of net revenue increased from 0.36% in 2007 to 0.42% in 2008. Non-productive days also increased from 1.46% in 2007 to 1.68% in 2008. Both indicators were negatively impacted by machinery malfunctions on one vessel.

Revenue

Algoma Tankers

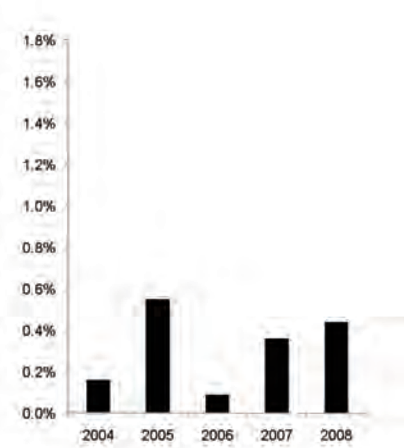
(IN MILLIONS)



Incident Costs

Algoma Tankers

(PERCENTAGE OF AVAILABLE DAYS)



Shipboard employees on the domestic product tanker vessels are represented by two labour unions. The Canadian Merchant Service Guild ("CMSG") and the Seafarers International Union ("SIU") each have labour agreements that expire on July 31, 2010. Vessel management and maintenance of the *Algoma Hansa* is outsourced to Bernhard Schulte Shipmanagement, a leading ship management company. Technical experts employed by the Corporation and its subsidiaries maintain oversight responsibility for the *Algoma Hansa*.

Non Productive Days

Algoma Tankers

(PERCENTAGE OF AVAILABLE DAYS)

ATL developed and implemented an ISO 14001 compliant Environmental Management System in 2008. This system builds upon its successful and compliant International Safety Management (ISM) Code and ISO 9001 Quality Management Systems. Further enhancing the Corporation's focus on environmental performance is its voluntary membership in the industry led "Green Marine" environmental initiative. Green Marine brings together several marine industry stakeholder groups from both Canada and the U.S. and it is headed by a steering committee composed of Chief Executive Officers of major marine companies active in the industry. This environmental initiative's goal is to implement a voluntary environmental program in the St. Lawrence and Great Lakes waterway with a view to demonstrating and communicating the maritime industry's environmental performance and its commitment to improving the environmental profile of our industry which is already the best among all transportation modes.

Looking forward to 2009, the Corporation anticipates that domestic petroleum product demand will remain stable at prior year levels, notwithstanding, the current economic challenges faced by many industries. With the addition of the two new product tankers, ATL expects to be able to meet the increasing requirements of its core customer and to expand our service offerings into new areas. Internationally, although we expect some slowdown in overall petroleum product demand in 2009 we nevertheless expect to maintain full utilization for our international product carrier.

Over the last ten years the Corporation has renewed, at a total cost of approximately $190 million, the original domestic product tanker fleet purchased from Imperial Oil Limited in 1998 and this fleet has become the most modern tanker fleet operating in our market area. We have expanded our product tanker business beyond Canadian waters and are poised to grow profitably in this area. The Corporation and its employees are proud of their accomplishments in the product tanker field.

Ocean Shipping

The Corporation's interest in Ocean Shipping consists of two entities. Marbulk Canada Inc. ("MCI"), which is 50% owned by the Corporation and 50% owned by an unrelated corporation, owns four ocean going self-unloaders and owns a fifth self-unloader in a 50:50 partnership with Bernhard Schulte of Hamburg, Germany. Algoma Shipping Inc. ("ASI"), a wholly-owned subsidiary of the Corporation, owns two ocean-going self-unloading vessels and three ocean-going handy-sized geared bulk carriers.

The six ocean going self-unloading vessels that are fully owned by MCI and ASI are combined with other vessels owned by CSL International Inc., Oldendorff Carriers, based in Lübeck, Germany and the Torvald Klaveness Group, based in Oslo, Norway to form the CSL International commercial arrangement. The ocean-going self-unloader owned by partners MCI and Bernhard Schulte is financially independent of the CSL International commercial arrangement.

The CSL International commercial arrangement has experienced very strong demand for its vessels for the last few years. The three major commodities which are served include gypsum for wallboard, crushed aggregates for construction and coal for power generation. The CSL International commercial arrangement also provides transportation services for the iron and steel industry. Service is provided under long-term contracts to leading companies in each sector. As a result of this strong demand, the CSL International commercial arrangement has grown to twenty nine vessels in 2008, with markets centered in North and South America, however, activities can be world-wide.

In May of 2008, the Corporation, through ASI, purchased from Viken Shipping AS, of Bergen, Norway, three ocean-going maximum St. Lawrence Seaway sized bulk carriers for a total cost of $39.4 million. These three sisterships were built in Eastern Europe. The *Algoma Spirit* was built in 1986 and the *Algoma Discovery* and the *Algoma Guardian* were built in 1987. Each vessel is fitted with four cranes and has a maximum carrying capacity of 35,500 tonnes. The vessels are operating under long-term time charter agreements with Fednav International Ltd., an established leader in ocean dry-bulk shipping.

This acquisition fits well with the Corporation's ocean shipping activities and the acquisition also has the potential to provide a competitive fleet renewal option for the Corporation's domestic dry-bulk business. It is the Corporation's intention to make these vessels available for use by Seaway Marine Transport in Canadian flag service once the existing charter arrangements end. This decision will be based upon market conditions at the time.

Gross freight revenues earned from Ocean Shipping increased from $64,793 in 2007 to $97,924 in 2008. A number of factors contributed to this favourable increase. Just over 50% of the increase is attributed to operating the *Honourable Henry Jackman* for a full season. This vessel joined the CSL International commercial arrangement in August, 2007. About 20% of the increase is attributable to the addition of the *Algoma Spirit*, *Algoma Discovery* and *Algoma Guardian* during 2008. The rest of the increase is attributed to general revenue growth experienced by the CSLI commercial arrangement in 2008.

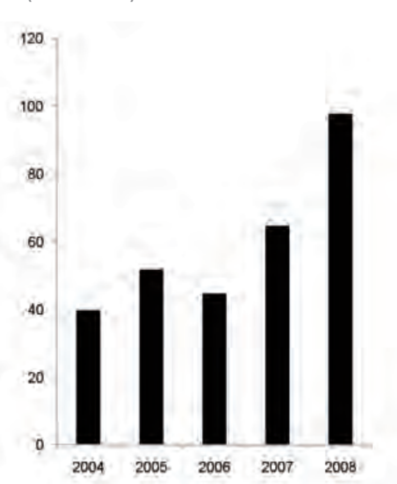
Operating earnings, net of income tax increased from $15,685 in 2007 to $21,135 in 2008. The increase in revenue was partially offset by higher operating costs associated with the increased operating days on the *Honourable Henry Jackman* and the operating days associated with the *Algoma Spirit*, *Algoma Discovery* and *Algoma Guardian* and due to the timing of required regulatory vessel surveys.

Planned dry-docking days as a percentage of available days increased from 3.31% in 2007 to 7.55% in 2008 together with an associated increase in dry-docking expenditures. However, total non-productive operating days (excluding dry-docking days) fell from 1.66% to 1.04% during the same period.

Revenue

Ocean Shipping

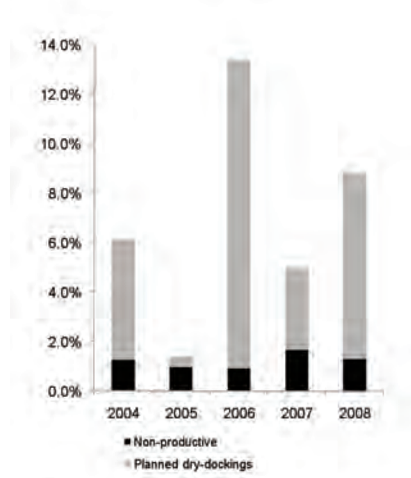
(IN MILLIONS)



Non Productive Days

Ocean Shipping

(PERCENTAGE OF AVAILABLE DAYS)



Vessel management and maintenance of the *Honourable Henry Jackman*, *Bahama Spirit* and *Weser Stahl* is outsourced to Bernhard Schulte Shipmanagement. The MCI vessels are managed by V-Ships. The three newly acquired ocean-going handy-size bulk carriers are managed by Wallem Shipmanagement. All three are world class ship management companies. Technical experts employed by the Corporation, its subsidiaries and its partners maintain oversight responsibilities for the ocean shipping fleet. In 2008 ASI established an office in Beverly, Massachusetts. The Corporation continues its focus on productivity, operational excellence, safety, security and environmental protection.

The diversified nature of the markets served by the CSL International commercial arrangement and the value added nature of their self-unloading marine transportation services provides some protection from volatile ocean shipping markets. The CSL International commercial arrangement cannot be expected to be immune from the current global economic crisis, however. For example, gypsum shipping demand is expected to fall in 2009 as U.S. construction demands continue to slow. The demand for aggregates appears to be less affected by the current economic crisis and is expected to eventually benefit from strong government support of public infrastructure projects. Similarly, the demand for coal shipments during 2009 also appears to be consistent with prior years.

Real Estate

Algoma Central Properties Inc. ("ACP") owns and manages commercial real estate in St. Catharines, Sault Ste. Marie and Waterloo, Ontario. In St. Catharines, properties include Ridley and Huntington Square commercial plazas, three office buildings known as 63 Church Street, 20 and 25 Corporate Park Drive, as well as a light industrial property named Martindale Business Centre. ACP also 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.

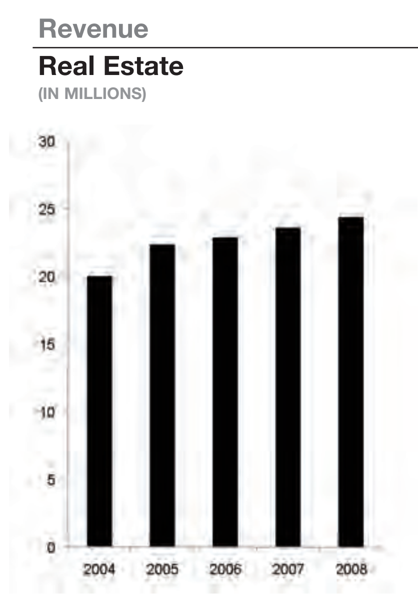
The Sault Ste. Marie properties owned and managed by ACP include Station Mall, a full-service hotel, the Station Tower and 289 Bay Street office buildings and a residential apartment building, Station '49'. In Waterloo, ACP owns and manages three office buildings located at 408, 410 and 412 Albert Street, which collectively is known as the Waterloo Technology Campus.

Revenue increased by 3% in 2008 to $24,391 when compared to 2007 revenue of $23,636. The increase is mainly attributable to the newly constructed 25 Corporate Park Drive which was completed in March 2008 and also increases in recoverable operating costs as were due from tenants in a number of our commercial properties. Operating earnings net of income tax for 2008 increased by 9% to $5,256 over 2007 operating earnings net of income tax of $4,827. The increase is mainly attributable to both 25 Corporate Park Drive and a gain on the sale of the 610 Welland light industrial building.

Revenue

Real Estate

(IN MILLIONS)



ACP invested $2,000 in 2008 for the completion of the 25 Corporate Park Drive office building including other renovations, tenant improvements and general upgrades.

The Corporation plans to spend approximately $7,500 in 2009 including a remodernization program of the hotel and leasehold improvements and general upgrades for other owned properties.

St. Catharines, Ontario

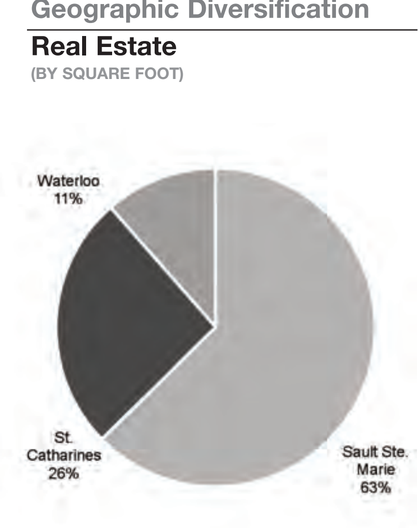
The demand for prime commercial office space weakened by the end of 2008 compared to previous years as evidenced by the occupancy levels of our buildings located at our Henley Corporate Park development. The 25 Corporate Park Drive occupancy rate is 62% and the 20 Corporate Park Drive occupancy rate of 94% is the same as at the end of 2007. Revenue has increased by 12% in 2008 over 2007 for 20 Corporate Park Drive due to the higher average occupancy rate year over year. Revenue for ACP's joint venture office building, 75 Corporate Park Drive (which is also located at the Henley Corporate Park development), has remained consistent in 2008 when compared to 2007. Although we have experienced increased rental rates, this increase in revenue was offset by a vacancy for a period of time within the year due to tenant turnover. The building is currently 100% leased, the same as at the end of 2007. ACP owns three acres of vacant land at Henley Corporate Park available for future development.

The downtown office building, 63 Church Street, also houses the Corporation's executive offices. Revenue decreased 5% in 2008 under 2007, as the average occupancy for the full year in 2008 was less than that of the full year in 2007. The occupancy rate at the end of 2008 has increased to 76% from 75% at the end of 2007, which is an indicator of improved stability in the downtown office market.

Geographic Diversification

Real Estate

(BY SQUARE FOOT)



Revenue for Ridley Square and Huntington Square has increased by 4% in 2008 over 2007, due to increases in both rental rates and recoverable operating costs from tenants. The occupancy rate for Ridley Square has decreased to 97% at the end of 2008 compared to 100% the previous year; while Huntington Square is at 94%, the same as 2007. Martindale Business Centre has maintained the same occupancy level year over year at 96% with a decrease in revenue of 3% in 2008 under 2007. This comparative decrease is due to a lease buyout which occurred in 2007.

ACP sold the light industrial property known as 610 Welland Avenue in early 2008. At a building size of only 15,000 square feet, this property was not a good long-term fit for our portfolio, and the decision was made to dispose of the property while the market was strong.

Sault Ste. Marie, Ontario

The 2008 year was challenging for the retail sector, as reflected by the 2% decrease in revenue from 2007 for Station Mall. In addition, the occupancy level is now 94% compared to 97% last year. We expect 2009 to be a very difficult year due to the structural changes occurring with respect to consumer spending patterns which are increasingly directed towards discount retailers versus the more traditional retail operators. In order to maintain a strong competitive position, tenant mix is continually reviewed and changed where possible in order to satisfy the requirements of consumers.

Rental revenue from our full-service hotel (previously branded as a Holiday Inn) increased 2% in 2008 over 2007. Although the lease expiry date was April 30, 2009, the Corporation completed an early termination agreement with the tenant effective February 1, 2009 and assumed both control and management of the hotel and the hotel is now operating under the name Waterfront Inn & Conference Centre. A $6,000 modernization program is planned for the property to include building

upgrades, esthetical and amenity improvements, as well as new furnishings, fixtures and equipment. There are negotiations currently underway with a hotel management services company to manage the hotel and further, the intention is to franchise the hotel with a brand that best fits the market. This project will take until early 2010 to complete.

Revenue increased by 8% for the 289 Bay Street office building in 2008 over 2007 due to increased rental rates as occupancy remained at 100% year over year. The occupancy rate for Station Tower decreased to 92% in 2008 from 95% in 2007, which resulted in a 2% decrease in revenue. Current demand for commercial office space is weak with little reason for improvement in the foreseeable future.

Occupancy for our apartment building, Station '49', is currently 98% compared to the previous year of 99%. The occupancy levels normally fluctuate throughout the year due to typical tenant turnover. There is a 1% increase in revenue in 2008 over 2007 due to rental rate increases.

Asset Mix

Real Estate
(BY SQUARE FOOT)

Hotel/Residential 15%
Retail 48%
Office/Light Industrial 37%

Waterloo, Ontario

The three office buildings in the Waterloo Technology Campus remain 100% leased, 3% of which is being leased on a temporary basis to an already existing tenant within the complex. Revenue has increased by 5% in 2008 over 2007 due to increases in operating costs for the year which are recoverable from the tenants. In comparison to the broader economy, the City of Waterloo's economic situation appears to be stable with respect to the Class 'A' office market.

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, C.A.
President and Chief Executive Officer
February 18, 2009

David G. Allen, C.A.
Vice President, Finance and Chief Financial Officer
February 18, 2009

Auditors' Report

To the Shareholders of Algoma Central Corporation

We have audited the consolidated balance sheets of Algoma Central Corporation as at December 31, 2008 and 2007 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, 2008 and 2007 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,
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario, February 18, 2009

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 2008 and 2007
(In thousands of dollars, except per share figures)

	2008	2007
REVENUE	$ 688,914	$ 580,546
EXPENSES		
Operations	558,293	455,418
General and administrative	26,802	24,675
	585,095	480,093
EARNINGS BEFORE UNDERNOTED ITEMS	103,819	100,453
Amortization	(34,221)	(29,432)
Financial expense *(Note 6)*	(1,444)	(1,463)
Net (loss) gain on translation of foreign-denominated assets and liabilities	(4,699)	3,493
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	63,455	73,051
INCOME TAX PROVISION *(Note 7)*	(12,308)	(11,480)
EARNINGS OF NON-CONTROLLING INTEREST	(9,867)	(9,128)
NET EARNINGS	41,280	52,443
RETAINED EARNINGS, BEGINNING OF YEAR	362,267	316,313
DIVIDENDS	(6,521)	(5,354)
REFUNDABLE DIVIDEND TAXES *(Note 8)*	1,697	(1,135)
RETAINED EARNINGS, END OF YEAR	$ 398,723	$ 362,267
BASIC AND DILUTED EARNINGS PER SHARE	$ 10.61	$ 13.48

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 9)*	$ 11,800	$ 28,132
Accounts receivable	81,901	81,080
Materials and supplies	10,955	12,372
Prepaid expenses	6,908	8,693
Income taxes recoverable	20,066	6,420
	131,630	136,697
CAPITAL ASSETS *(Note 10)*	562,090	384,454
EMPLOYEE FUTURE BENEFITS *(Note 11)*	12,372	12,357
	$ 706,092	$ 533,508
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	$ 79,501	$ 71,662
Current portion of future income taxes *(Note 7)*	20,791	20,850
Advances and profits due to non-controlling interest	27,533	25,511
Dividends payable	697	631
Current portion of long-term debt *(Note 12)*	57,745	1,932
	186,267	120,586
FUTURE INCOME TAXES *(Note 7)*	32,639	29,285
LONG-TERM DEBT *(Note 12)*	37,439	11,893
OTHER LIABILITIES *(Note 13)*	9,677	9,081
COMMITMENTS AND CONTINGENCIES *(Notes 18 and 19)*	-	-
	266,022	170,845
SHAREHOLDERS' EQUITY		
SHARE CAPITAL *(Note 14)*	8,319	8,319
CONTRIBUTED SURPLUS	11,917	11,917
ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS) *(Note 15)*	21,111	(19,840)
RETAINED EARNINGS	398,723	362,267
	440,070	362,663
	$ 706,092	$ 533,508

APPROVED BY THE BOARD

_______________Director _______________Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings

Years ended December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
NET EARNINGS	$ 41,280	$ 52,443
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gain (loss) on translation of financial statements of foreign self-sustaining operations	42,989	(16,597)
Unrealized loss on hedging instruments, net of income tax of $1,269 and $115	(2,037)	(208)
	40,952	(16,805)
COMPREHENSIVE EARNINGS	$ 82,232	$ 35,638

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

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

	2008	2007
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	$ 41,280	$ 52,443
Items not affecting cash		
Amortization	34,221	29,432
Future income taxes	2,469	(5,734)
Earnings of non-controlling interest	9,867	9,128
Net loss (gain) on translation of foreign-denominated assets and liabilities	4,699	(3,493)
Gain on disposal of capital assets	(440)	(3,566)
Other	2,278	2,384
	94,374	80,594
Net change in non-cash operating working capital *(Note 16)*	(4,399)	(10,183)
	89,975	70,411
INVESTING		
Additions to capital assets	(168,724)	(74,803)
Proceeds from disposal of capital assets	928	3,323
Other	-	(967)
	(167,796)	(72,447)
FINANCING		
Proceeds from issue of long-term debt	79,489	40,779
Repayment of long-term debt	(4,750)	(57,621)
Net payments to non-controlling interest	(8,717)	(1,291)
Dividends paid	(6,455)	(5,316)
	59,567	(23,449)
GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY	1,922	(1,628)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,332)	(27,113)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	28,132	55,245
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,800	$ 28,132

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007 (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 flagged dry-bulk vessels. The operational and commercial activities of the dry-bulk fleet are managed by Seaway Marine Transport, a partnership with 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 six Canadian flag product tanker vessels. The Corporation also owns an additional foreign flag product tanker through a wholly-owned foreign subsidiary.

The Corporation owns two ocean-going self-unloading vessels and three ocean-going geared bulk carriers through a wholly-owned foreign subsidiary and has an interest through a joint venture in an ocean-going fleet of five self-unloaders. The seven ocean-going self-unloading 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 in calculating such amounts. Those assumptions are disclosed in Note 11 to the Corporation's consolidated financial statements and changes to those assumptions during the year are disclosed in Note 4.

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.

The Corporation has an interest in Seaway Marine Transport with an unrelated corporation and also has a minority interest in Laken Shipping Corporation . Both of these interests are reported in accordance with accounting for variable interest entities and therefore are fully consolidated in the results of the Corporation.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of 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. Net realizable value is the estimated revenue generated from the voyage less the cost associated with the voyage.

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 nine years. The tug and barge vessel is amortized on a straight-line basis over their remaining estimated lives of up to five years.

Product tanker vessels are amortized on a straight-line basis over their remaining estimated lives of up to 25 years.

Ocean shipping vessels are amortized on a straight-line basis over their remaining estimated lives of up to 19 years.

Real estate assets including site improvements are amortized on a straight-line basis over their remaining estimated lives of up to 34 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. At December 31, 2008 there were no identifiable intangible assets.

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, 2008 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.

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. Revenue is only recognized when collection is reasonably assured.

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 (loss) 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 11.

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 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 substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Financial Instruments

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

The Corporation is required to classify all financial assets as 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.

The Corporation classifies 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, advances and profits due to non-controlling interest, 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, 2008 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 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.

Comprehensive Earnings

Comprehensive earnings are 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.

Hedges

The Corporation, in keeping with its risk management strategy, has elected 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.

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

a. Business combinations and non-controlling interests

In January 2009, the Canadian Accounting Standard Boards ("AcSB") issued Section 1582 *"Business Combinations"*, Section 1601 *"Consolidations"* and Section 1602 *"Non-Controlling Interests"*. Section 1582 replaces Section 1581 *"Business Combinations"* and provides the Canadian equivalent to IFRS 3 *"Business Combinations"*. Section 1601 and Section 1602 replace Section 1600 *"Consolidated Financial Statements"*. Section 1602 provides the Canadian equivalent to International Accounting Standard 27 *"Consolidated and Separate Financial Statements"*, for non-controlling interests. These standards are effective for fiscal years beginning on or after January 1, 2011.

The Corporation is currently evaluating the impact of the above new standards on its consolidated financial statements.

b. International Financial Reporting Standards ("IFRS")

In 2006 the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The changeover date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended December 31, 2010.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

As a result, the Corporation has developed a plan to convert its consolidated financial statements to IFRS. The Corporation has established an IFRS team and is currently in the process of assessing the differences between IFRS and the Corporation's current accounting policies, as well as the alternatives available on adoption. Once completed, the assessment will include the impact of conversion on information technology and data systems, internal control over financial reporting, disclosure controls and procedures and business activities.

Changes in accounting policies are likely. The Corporation has identified the following standards, which may materially impact the Corporation's consolidated financial statements, as significant differences between IFRS and Canadian GAAP:

- Property, plant and equipment
- Investment property
- Impairment of assets
- Interest in joint ventures
- Provisions, contingencies and contingent assets
- Employee benefits

3. CHANGE IN ACCOUNTING POLICIES

As required by the Canadian Institute of Chartered Accountants ("CICA"), the Corporation adopted CICA Handbook Section 3862, *"Financial Instruments – Disclosures"*, Section 3863, *"Financial Instruments – Presentation"*, Section 1535, *"Capital Disclosures"*, Section 3031, *"Inventories"* and amendments to Section 1400, *"General Standards of Financial Statement Presentation"*. These new or amended Sections are applicable to the Corporation for its interim and annual financial statements relating to fiscal years beginning on January 1, 2008. Accordingly, the Corporation has adopted the new and amended standards for its fiscal year beginning January 1, 2008.

Section 1535 *"Capital Disclosures"* establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.

The Corporation has included its capital disclosures in Note 17 to the financial statements

Section 3862 *"Financial Instruments – Disclosure"* modifies the disclosure requirements for financial instruments that were previously included in Section 3861 *"Financial Instruments – Disclosure and Presentation"*. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance;
- 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 *"Financial Instruments – Presentation"* established standards for the presentation of financial instruments and non-financial derivatives. The Corporation has included its enhanced financial instruments disclosure in Note 20 to the financial statements

Section 3031 *"Inventories"*, require that inventories be measured at the lower of cost and net realizable value and also requires that net realizable value impairments be reversed, to the extent of the original write down, when warranted.

Amendments to Section 1400, *"General Standards of Financial Statement Presentation"*, were made to include requirements to assess and disclose an entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Corporation is not considered a going concern.

The adoption of these new and amended standards did not have any affect on the Corporation's results of its operations, financial position or cash flows.

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 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 11 to the consolidated financial statements for the years ending December 31, 2008 and 2007.

Effective December 31, 2007 the Corporation changed its assumptions on the discount rate from 5.0% to 5.5%. The 5.5% rate was used throughout 2008 for purposes of computing the net benefit cost incurred. Effective December 31, 2006 the Corporation changed the discount rate to 5.0% from 6.0% and the rate of increase of compensation to 4.0% from 5.0%. These rates were used throughout 2007 for purposes of computing the net benefit cost incurred.

At December 31, 2008 and 2007 the Corporation changed the discount rate from 5.5% to 7.3% and from 5.0% to 5.5%, respectively. The revised rates were used for purposes of calculating the accrued benefit obligation at December 31.

The adoption of these new assumptions has had the following effect on the consolidated financial statements.

	2008	2007
(Decrease) increase in accrued benefit obligation	**$ (20,237)**	$ 4,184
Increase (decrease) in unamortized amounts	**20,065**	(5,232)
Increase in net benefit asset	**-**	1,339
Increase (decrease) in net earnings	**172**	(291)
	$ -	$ -

5. INTERESTS IN JOINT VENTURES

The Corporation, through its wholly owned subsidiary Algoma Shipping Inc. and through an interest in Marbulk Canada Inc. with an unrelated corporation, owns and operates ocean-going vessels. Both Algoma Shipping Inc. and Marbulk Canada Inc. are participants in an international commercial arrangement, whereby the marketing and commercial operations of the vessel management are 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, through its wholly owned subsidiary Algoma Tankers International Inc. has an interest in Hanseatic Tankers, a foreign joint venture with four other unrelated corporations. The Hanseatic Tankers joint venture commenced operations in October 2008 and will consist of twenty-four product tankers once all vessels are delivered by mid 2011.

The Corporation's interests in the joint ventures are accounted for using the proportionate consolidation method.

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

	2008	2007
Revenue	**$ 95,108**	$ 65,553
Expenses	**66,766**	46,512
Net earnings	**$ 28,342**	$ 19,041
Assets		
Current	**$ 14,527**	$ 11,176
Long-term	**27,088**	26,065
	$ 41,615	$ 37,241
Liabilities		
Current	**$ 6,534**	$ 4,834
Long-term	**2,058**	4,802
	$ 8,592	$ 9,636
Cash inflow (outflow) from:		
Operating Activities	**$ 28,731**	$ 21,303
Investing Activities	**(701)**	(899)
Financing Activities	**(255)**	(5,216)
	$ 27,775	$ 15,188

6. FINANCIAL EXPENSE

The components of financial expense for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Interest expense on borrowings	**$ 4,897**	$ 3,657
Interest income on cash and cash equivalents	**(1,882)**	(1,710)
Net interest capitalized	**(1,571)**	(484)
	$ 1,444	$ 1,463

7. 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:

	2008	2007
Combined federal and provincial statutory income tax rate	**33.5%**	36.1%
Earnings before income taxes and non-controlling interest	**$ 63,455**	$ 73,051
Expected income tax provision	**$ 21,257**	$ 26,371
Increase (decrease) resulting from:		
Effect of foreign exchange translation	**512**	655
Tax applicable to earnings of non-controlling interest	**(3,657)**	(3,355)
Foreign tax rates different from statutory rate	**(6,050)**	(6,101)
Effect of corporate tax rate reduction	**-**	(5,570)
Other	**246**	(520)
	$ 12,308	$ 11,480

The components of the income tax provision for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Current income tax	**$ 9,839**	$ 17,214
Future income tax	**2,469**	(5,734)
	$ 12,308	$ 11,480

The components of the future tax liability at December 31, 2008 and 2007 are as follows:

	2008	2007
Capital assets	$ 26,143	$ 28,194
Accounting income not currently taxable	21,838	16,441
Other	5,449	5,500
	53,430	50,135
Less current portion of future tax liabilities	20,791	20,850
	$ 32,639	$ 29,285

8. REFUNDABLE DIVIDEND TAXES

The Corporation has interests in two joint ventures which are classified as private corporations under The Income Tax Act. A portion of the income tax that is paid on investment income by the private corporations is refundable as taxable dividends are paid by the private corporations. The Corporation's share of the accrued balance of the refundable dividend tax at December 31, 2008 and 2007 amounts to $651 and $2,016.

9. 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, 2008 and 2007 did not include any asset-backed commercial paper.

Cash and cash equivalents at December 31, 2008 and 2007 consist of the following:

	2008	2007
Cash in banks	$ 11,800	$ 18,848
Short-term deposits	-	9,284
	$ 11,800	$ 28,132

10. CAPITAL ASSETS

	2008			
	Land	Amortizable Assets	Accumulated Amortization	Net
Domestic Dry-Bulk	$ 96	$ 522,833	$ 401,958	$ 120,971
Product Tankers	-	247,306	25,305	222,001
Ocean Shipping	-	200,589	52,564	148,025
Real Estate	7,648	98,986	35,541	71,093
	$ 7,744	$1,069,714	$ 515,368	$ 562,090

Amortizable assets at December 31, 2008 includes $35,506 relating to the progress payments on new product tanker vessels and $22,399 relating to the progress payments on the construction of two maximum seaway size self-unloading forebodies. Amortization on these assets will commence when they are placed in service at various dates over the next three years.

	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 includes $17,900 relating to progress payments on new product tanker vessels, $8,866 relating to the progress payments on the construction of two maximum seaway size self-unloading forebodies and $4,634 on a new commercial building under construction. Amortization on the new commercial building and one product tanker vessel commenced in 2008.

11. 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 to certain employees.

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, 2008. The next required valuation for the defined benefit plans will be as of January 1, 2010 and June 1, 2011.

Information, in aggregate, regarding the Corporation's future benefit plans for the years 2008 and 2007 is as follows:

	Pension Plans		Other Benefit Plans	
	2008	2007	**2008**	2007
Plan Assets				
Fair value, beginning of year	**$ 111,055**	$ 115,319	**$ -**	$ -
Actual (loss) return on plan assets	**(9,603)**	583	**-**	-
Benefits paid	**(6,782)**	(6,770)	**-**	-
Change in assumptions (Note 4)	**-**	1,339	**-**	-
Employee contributions to plans	**177**	274	**-**	-
Employer contributions to plans	**339**	310	**-**	-
Fair value, end of year	**95,186**	111,055	**-**	-
Accrued Benefit Obligations				
Obligations, beginning of year	**108,489**	99,042	**4,512**	3,901
Current service cost	**3,096**	3,339	**208**	211
Interest cost	**5,867**	5,483	**243**	231
Benefits paid	**(6,868)**	(6,821)	**(153)**	(110)
Change in assumptions (Note 4)	**(18,537)**	7,277	**(1,700)**	-
Actuarial losses	**383**	169	**2,275**	279
Obligations, end of year	**92,430**	108,489	**5,385**	4,512
Accounting plan surplus	**2,756**	2,566	**(5,385)**	(4,512)
Unamortized amounts	**3,737**	4,331	**1,855**	1,478
Net benefit asset (liability)	**$ 6,493**	$ 6,897	$ **(3,530)**	$ (3,034)

The net benefit asset of all employee future benefit plans of $2,963 and $3,863 at December 31, 2008 and 2007 consists of the following:

	2008	2007
Employee benefit assets		
Pension plans	**$ 12,372**	$ 12,357
Employee benefit liabilities		
Pension plans	**$ 5,879**	$ 5,460
Other benefit plans	**3,530**	3,034
	$ 9,409	$ 8,494
	$ 2,963	$ 3,863

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

	2008	2007
The Employee Pension Plan of Algoma Central Corporation	$ 8,382	$ 9,050
The Union Employee Pension Plan of Fraser Marine & Industrial	1,012	770
Supplementary Employee Retirement Plan	(6,638)	(7,254)
	$ 2,756	$ 2,566

The unamortized amounts consist of the following:

	Pension Plans		Other Benefit Plans	
	2008	2007	2008	2007
Unamortized transitional (asset) liabilities	$ (3,641)	$ (5,426)	$ 297	$ 414
Unamortized past service costs	1,658	1,878	-	-
Unamortized net loss	5,720	7,879	1,558	1,064
	$ 3,737	$ 4,331	$ 1,855	$ 1,478

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

	Pension Plans		Other Benefit Plans	
	2008	2007	2008	2007
Current service cost	$ 3,096	$ 3,339	$ 208	$ 211
Interest cost on plan obligations	5,867	5,483	243	231
Expected return on plan assets	(6,484)	(6,823)	-	-
Net benefit cost incurred	2,479	1,999	451	442
Amortization of transitional (asset) obligations	(1,733)	(1,733)	138	297
Amortization of past service costs	257	181	52	210
Net benefit expense recognized	$ 1,003	$ 447	$ 641	$ 949

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

	2008		2007	
	Amount	% of total	Amount	% of total
Short term notes	$ 4,377	4.4%	$ 4,139	3.6%
Canadian bonds	48,815	49.2%	48,098	41.8%
Canadian equities	19,798	20.0%	29,849	25.9%
Foreign equities	17,228	17.4%	22,444	19.5%
Annuities	8,907	9.0%	10,553	9.2%
	99,125	100.0%	115,083	100.0%
Amount related to defined contribution plan	(3,939)		(4,028)	
	$ 95,186		$ 111,055	

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	
	2008	2007	**2008**	2007
Discount rate used for estimating accrued benefit obligation	**7.3%**	5.5%	**7.3%**	5.5%
Discount rate used for estimating interest cost included in net benefit cost incurred	**5.5%**	5.0%	**5.5%**	5.0%
Long-term rate of return on plan assets	**6.0%**	6.0%	**NA**	NA
Rate of compensation increases	**4.0%**	4.0%	**4.0%**	4.0%
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 8% (2007 - 9%), with the rate trending to 6% per annum over the next two years. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would have the following effect for 2008.

	Increase	**Decrease**
Service and interest cost	**$ 92**	**$ 70**
Accrued benefit obligation	**$ 687**	**$ 562**

12. LONG-TERM DEBT

	2008	2007
Secured non-revolving term loan, due January 20, 2015, interest fixed at 5.90%	**$ 12,000**	$ 14,000
Secured non-revolving term loan, due March 31, 2018, interest fixed at 5.02% to May 30, 2013	**31,000**	-
Secured revolving loans:		
Direct loans, interest at prime, due April 2009	**9,282**	-
Canadian B.A. rate plus 0.75%, due April 2009	**14,000**	-
U.S. $24,000, LIBOR plus 0.85%, due April 2009	**29,232**	-
	95,514	14,000
Less unamortized financing expenses	**330**	175
	95,184	13,825
Current portion	**57,745**	1,932
	$ 37,439	$ 11,893

Interest on long-term debt amounted to $3,647 and $2,295 in 2008 and 2007 respectively, of which $2,872 and $484 respectively was capitalized to the cost of vessels during the construction period.

Please refer to Note 20 of the financial statements for information on the assets the Corporation has pledged as security for the credit facilities.

Principal payments required to service the debt are as follows:

2009	$ 57,745
2010	5,307
2011	5,307
2012	5,307
2013	5,383
Thereafter	16,465
	$ 95,514

13. OTHER LIABILITIES

	2008	2007
Employee future benefits (Note 11)	**$ 9,409**	$ 8,494
Deferred revenue	**268**	587
	$ 9,677	$ 9,081

14. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common and preferred shares. At December 31, 2008 and 2007, there were 3,891,211 common shares and no preferred shares issued and outstanding.

15. ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)

The accumulated other comprehensive earnings (loss) balances are as follows:

	2008	2007
Unrealized gains (losses) on translation of financial statements of foreign self-sustaining operations	**$ 23,356**	$ (19,632)
Unrealized loss on hedging instruments, net of income tax of $1,269 and $115	**(2,245)**	(208)
Accumulated other comprehensive earnings (loss)	**21,111**	(19,840)
Retained earnings	**398,723**	362,267
	$ 419,834	$ 342,427

16. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	2008	2007
Change in non-cash operating working capital		
Accounts receivable	**$ (1,785)**	$ (17,470)
Materials and supplies	**1,143**	(2,960)
Prepaid expenses	**1,098**	(450)
Income taxes recoverable	**(13,646)**	2,062
Accounts payable and accrued charges	**8,791**	8,635
	$ (4,399)	$ (10,183)
Interest paid	**$ 4,896**	$ 2,568
Income taxes paid	**$ 21,419**	$ 15,332

17. CAPITAL DISCLOSURES

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

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

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

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

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

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

The debt to shareholders' equity ratio at December 31, 2008 and 2007 is as follows:

	2008	2007
Current portion of long-term debt	**$ 57,745**	$ 1,932
Long-term debt	**37,439**	11,893
Total long-term debt	**$ 95,184**	$ 13,825
Shareholders' equity	**$ 440,070**	$ 362,663
Debt to shareholders' equity ratio	**0.22 to 1**	0.04 to 1

18. COMMITMENTS

The Corporation, including its share of commitments in its joint ventures, has remaining commitments for capital expenditures at December 31, 2008 and 2007 of $203,438 and $309,115, respectively.

The commitments at December 31, 2008 relate primarily to the purchase of five new product tankers and its share of the cost to construct two maximum seaway size self-unloading forebodies. Approximately $90,678 is due for payment in 2009, $97,089 is due in 2010, and $15,671 is due for payment in 2011.

The commitments at December 31, 2007 related primarily to the purchase of seven new product tankers, two of which were paid for in 2008, and its share of the cost to construct two maximum seaway size self-unloading forebodies.

19. 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. In 2003, the Corporation filed a Notice of Objection with the CRA and in February 2009 it filed a Notice of Appeal with the Tax Court of Canada.

If the Corporation were to be unsuccessful, the estimated tax and accrued interest owing to December 31, 2008 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 product tankers and the cost to construct two maximum seaway size self-unloading forebodies. The guarantees provided are as follows:

- US$34,005 representing the second installments on the new product tankers. The Corporation has received letters of refund guarantee from the shipyards in the amount of US$34,005 representing the first installments made on the product tankers.

- Euro 2,269 representing the Corporation’s share of the third and fourth installments on the construction on one of the two maximum seaway size self-unloading forebodies. The Corporation has received letters of refund guarantee from the shipyards in the amount of Euro 8,754 representing the installments made on the two forebodies.

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 $1,564 with an expiry date of July 2009.

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 losses. 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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Corporation's financial instruments that are included in the Consolidated Balance Sheets are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, long-term debt and the advance and profits due to the non-controlling interest.

Fair value

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued charges approximates their carrying values due to their short-term maturity. The fair value of the amount due to the non-controlling interest approximates its carrying value as the interest rate approximates current market rates for similar debt. The fair value of long-term debt including the current portion is approximately $99,028 compared to the carrying value of $95,514 due to the difference in the rates in the interest rate swap agreements when compared to current market rates for similar instruments with similar terms.

Derivative financial instruments

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

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

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

Risk Management and Financial Instruments

The Corporation is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as of December 31, 2008.

Credit risk

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

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

	Base currency	Canadian equivalent
Canadian dollar balances	$ 2,449	$ 2,449
U.S. dollar balances	$ 7,538	$ 9,351

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 generally kept to a minimum.

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

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

- 94% of accounts receivable has been outstanding for 60 days or less; of which 75% are current;
- The Corporation has in recent history recorded minimal bad debts;
- The customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies; and,
- Credit reviews are performed prior to extending credit and reviewed on an on-going basis.

A provision for bad debts is established when it is determined the amount to be collected is lower than the carrying value. The allowance for doubtful accounts at December 31, 2008 and 2007 was not material.

The Corporation has three customers whose revenues exceed 10% of consolidated revenues on an annual basis. At December 31, 2008 the amounts owing by these three customers represent 24% of the accounts receivable balance. The Corporation does not consider there is any risk of default based on the financial strength of these customers.

Liquidity risk

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

The Corporation maintains credit facilities which are reviewed at least annually to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facilities at December 31, 2008 were $113,000 consisting of $70,000 in a revolving facility and $43,000 in a term facility. At December 31, 2008 the Corporation had approximately $12,000 available in existing credit facilities.

While the Corporation believes it has the financial strength to attract and service the additional debt, the recent economic instability created primarily by the worldwide banking and credit crisis may adversely affect the pricing of the debt. We are currently examining various financing alternatives with a number of financial institutions and are optimistic we will secure the necessary financing during the first half of 2009.

The Corporation has pledged certain vessels as security for the credit facility. The Corporation has provided the lender with first ship mortgages on the *Algoscotia*, the *Honourable Henry Jackman* and the *Bahama Spirit*. The carrying value of the secured vessels is $112,819.

The contractual maturities of financial liabilities at December 31, 2008 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 79,501	$ -	$ -	$ -	$ 79,501
Dividends payable	697	-	-	-	697
Long-term debt	57,745	10,614	10,690	16,465	95,514
Advances and profits due to non-controlling interest	27,533	-	-	-	27,533
Total	$ 165,476	$ 10,614	$ 10,690	$ 16,465	$ 203,245

Market risk

(a) Fuel prices

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

(b) Interest rate risk

At December 31, 2008 the Corporation did not have any cash flow exposure to interest rate movements for its term bank loans. Both of the Corporation's term bank loans have interest rates that have been fixed through interest rate swap agreements expiring in 2013 and 2015. The term bank loans represent 45% of the outstanding debt at December 31, 2008.

The fair values of the interest rate swap contracts are based on amounts quoted by the Corporation's bankers to settle the contracts at a point in time. At December 31, 2008 the interest rate swap agreement had a negative fair value of $3,514. This amount has been recorded in the financial statements in accordance with the Corporation's hedge accounting policy.

The Corporation is subject to cash flow interest rate risk with respect to its secured revolving loans.

(c) Foreign currency exchange risk

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

At December 31, 2008 and 2007, 34% and 29% respectively of the Corporation's total assets were denominated in U.S. dollars.

The Corporation is exposed to foreign currency fluctuations related to its net investment in self-sustaining foreign subsidiaries and long-term debt denominated in U.S. dollars. The Corporation does not hedge its investments in the subsidiaries as the currency positions are considered long-term in nature. At December 31, 2008 the net investment in U.S. dollar denominated self-sustaining foreign subsidiaries was U.S. $178,561 and the foreign currency denominated long-term debt outstanding was U.S. $24,000.

The Corporation has significant commitments due for payment in U.S. dollars and Euros. The Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet. For payments due in U.S. dollars for foreign vessels, the Corporation mitigates the risk principally through U.S. dollar cash inflows and foreign denominated debt. The notional amount of the foreign exchange forward contracts at December 31, 2008 is Euro 14,187. At December 31, 2008 the foreign exchange forward contracts had a positive fair value of $4,728 and the embedded derivatives had an unfavourable fair value of $4,728.

For the twelve month period ended December 31, 2008, the Corporation realized gains of $3,021 resulting from two Euro foreign exchange forward contracts the Corporation entered into to manage the foreign exchange exposure related to two product tankers that were constructed in Turkey and delivered to the Corporation in the fourth quarter of 2008. The Corporation took delivery of the Euros upon the maturities of the foreign exchange forward contracts and held the Euros in short-term deposits until such time as the final payments were made for the vessels in September and December 2008.

(d) Market sensitivity analysis (after income tax)

Based on the Corporation's estimates, a ten cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce net earnings by $1,716.

Based on the balances at December 31, 2008:

- A ten cent strengthening in the Canadian dollar relative to the U.S. dollar would increase Other Comprehensive Earnings (Loss) by $17,856.
- A ten cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total assetby $20,053.
- A ten cent strengthening in the Canadian dollar relative to the U.S dollar would reduce total liabilities by $2,400.
- An increase in interest rates of 100 basis points (one percent) would reduce annual net earnings by $349.

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

21. 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 an unrelated Canadian ship owner in the partnership. Each partner owns its vessels separately from the other partner. The partnership includes a total of 35 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 thirteen bulk carriers, which unload by means of shore-side equipment.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of six 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 Shipping marine transportation segment includes ownership of two ocean-going self-unloading vessels and three ocean-going geared bulk carriers 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. An unrelated corporation 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 and owns a retail mall, two office buildings, a residential apartment building and a hotel building. In St. Catharines, properties include two commercial plazas, one light industrial building, three office buildings, 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 earnings from operations by reportable segment.

	2008	2007
Revenues		
Domestic Dry-Bulk	**$ 487,751**	$ 413,398
Product Tankers	**78,848**	78,719
Ocean Shipping	**97,924**	64,793
Real Estate	**24,391**	23,636
	$ 688,914	$ 580,546
Earnings from Operations		
Operating earnings net of income tax		
Domestic Dry-Bulk	**$ 20,108**	$ 18,474
Product Tankers	**6,673**	11,590
Ocean Shipping	**21,135**	15,685
Real Estate	**5,256**	4,827
	53,172	50,576
Earnings of non-controlling interest - (Note 1)	**(6,561)**	(5,894)
Not specifically identifiable to segments		
Net gain (loss) on translation of foreign-denominated assets and liabilities	**(4,699)**	3,493
Financial expense	**(1,444)**	(1,463)
Income tax	**812**	5,731
	$ 41,280	$ 52,443

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

	2008	2007
Assets		
Domestic Dry-Bulk	**$ 200,471**	$ 190,303
Product Tankers	**230,623**	127,772
Ocean Shipping	**157,344**	93,466
Real Estate	**73,416**	75,056
	661,854	486,597
Not specifically identifiable to segments		
Current assets	**31,866**	34,554
Other	**12,372**	12,357
	$ 706,092	$ 533,508
Additions to Capital Assets		
Domestic Dry-Bulk	**$ 30,473**	$ 29,629
Product Tankers	**97,054**	18,667
Ocean Shipping	**40,060**	23,733
Real Estate	**2,318**	4,662
	169,905	76,691
Capital asset additions not involving cash	**(3,021)**	-
Capital asset additions included in accounts payable and accrued charges	**1,840**	(1,888)
Total per consolidated statement of cash flows	**$ 168,724**	$ 74,803
Amortization		
Domestic Dry-Bulk	**$ 17,028**	$ 15,589
Product Tankers	**6,141**	5,866
Ocean Shipping	**6,993**	4,615
Real Estate	**4,059**	3,362
	$ 34,221	$ 29,432

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, 2008 and 2007 is as follows:

	2008	2007
Capital assets	**$ 238,057**	$ 156,808
Revenues	**$ 108,872**	$ 74,944

Sales outside of Canada, primarily to the United States, were $213,812 in 2008 and $162,704 in 2007.

The Corporation has three customers whose revenues exceeded 10% of consolidated revenues in both 2008 and 2007. Sales to these three customers are as follows:

	2008	2007
Domestic Dry-Bulk	**$ 95,290**	$ 71,537
Domestic Dry-Bulk	**$ 82,883**	$ 69,863
Product Tankers	**$ 68,418**	$ 70,857

22. COMPARATIVE FIGURES

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

FIVE-YEAR SUMMARY

	2008	2007	2006	2005	2004
Revenue					
Domestic Dry-Bulk	$ 487,751	$ 413,398	$ 400,461	$ 370,689	$ 353,046
Product Tankers	78,848	78,719	79,832	63,954	53,594
Ocean Shipping	97,924	64,793	44,813	51,973	39,881
Real Estate	24,391	23,636	22,887	22,377	20,029
	$ 688,914	$ 580,546	$ 547,993	$ 508,993	$ 466,550
Net earnings	$ 41,280	$ 52,443	$ 42,059	$ 31,476	$ 23,915
Earnings from continuing operations	$ 41,280	$ 52,443	$ 41,575	$ 30,856	$ 22,545
Net earnings excluding corporate tax rate changes (Note 1)	$ 41,280	$ 46,873	$ 38,900	$ 31,476	$ 23,915
Amortization	$ 34,221	$ 29,432	$ 29,163	$ 28,015	$ 25,435
General and administrative expenses	$ 26,802	$ 24,675	$ 21,450	$ 20,593	$ 20,818
Cash flow from operations	$ 89,975	$ 70,411	$ 82,013	$ 70,007	$ 41,752
Dividends paid	$ 6,455	$ 5,316	$ 4,935	$ 3,797	$ 3,803
Capital asset additions					
Domestic Dry-Bulk	$ 30,473	$ 29,629	$ 5,421	$ 1,466	$ 19,265
Product Tankers	97,054	18,667	30,633	34,950	29,990
Ocean Shipping	40,060	23,733	27,551	60	21,320
Real Estate	2,318	4,662	2,549	1,455	18,690
	$ 169,905	$ 76,691	$ 66,154	$ 37,931	$ 89,265
Net capital assets					
Domestic Dry-Bulk	$ 120,971	$ 105,796	$ 93,254	$ 103,930	$ 125,414
Product Tankers	222,001	118,944	110,376	84,219	49,351
Ocean Shipping	148,025	86,382	81,893	57,739	64,328
Real Estate	71,093	73,332	71,182	66,050	67,268
	$ 562,090	$ 384,454	$ 356,705	$ 311,938	$ 306,361
EBITA					
Domestic Dry-Bulk	$ 36,570	$ 33,701	$ 30,760	$ 22,789	$ 25,126
Product Tankers	17,583	23,192	27,296	17,822	11,791
Ocean Shipping	27,243	22,150	14,830	19,308	13,371
Real Estate	11,435	10,955	11,155	10,876	9,772
	$ 92,831	$ 89,998	$ 84,041	$ 70,795	$ 60,060
Total assets	$ 706,092	$ 533,508	$ 514,299	$ 469,801	$ 455,569
Long-term debt including current	$ 95,184	$ 13,825	$ 38,282	$ 41,158	$ 56,447
Shareholders' equity	$ 440,070	$ 362,663	$ 333,514	$ 294,019	$ 267,558
LTD as % of shareholders' equity	21.6%	3.8%	11.5%	14.0%	21.1%
Return on capital employed (Note 2)	9.9%	12.3%	11.3%	10.0%	8.6%
Return on equity (Note 3)	10.3%	15.1%	13.4%	11.2%	9.2%
Common Share Statistics					
Common shares outstanding (000)	3,891	3,891	3,891	3,891	3,891
Earnings per share	$ 10.61	$ 13.48	$ 10.81	$ 8.09	$ 6.15
Earnings per share from continuing operations	$ 10.61	$ 13.48	$ 10.69	$ 7.93	$ 5.80
Cash flow from operations per share	$ 23.12	$ 18.10	$ 21.08	$ 17.99	$ 10.73
Quoted market value					
High	$ 144.20	$ 148.00	$ 127.50	$ 92.00	$ 73.35
Low	$ 48.00	$ 122.00	$ 87.50	$ 70.00	$ 57.00
Dividends per share	$ 1.70	$ 1.40	$ 1.30	$ 1.00	$ 1.00
Shareholders' equity per share	$ 113.10	$ 93.21	$ 85.71	$ 75.56	$ 68.76

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

Tim S. Dool, C.A. (3)
St. Catharines, Ontario,
Corporate Director

E.M. Blake Hutcheson (1)
Toronto, Ontario,
Partner,
Mount Kellett Capital Management LLC

Duncan N. R. Jackman (1) (2) (3) (4) (5)
Toronto, Ontario,
Chairman, President
and Chief Executive Officer,
E-L Financial Corporation Limited

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

Greg D. Wight, C.A. (4) (5)
St. Catharines, Ontario,
President and Chief Executive Officer,
Algoma Central Corporation

Principal Officers

Radcliffe R. Latimer
Chairman

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

David G. Allen, C.A.
Vice President, Finance &
Chief Financial Officer

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

Wayne A. Smith
Senior Vice President, Commercial

Al J. Vanagas, C.E.T.
Senior Vice President, Technical

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
Toronto, Ontario M5H 4A6
(416) 643-5500; (800) 387-0825

Shareholders' Meeting:
The Annual Meeting of Shareholders will be held at 11:30 a.m., on Thursday May 7, 2009, at the Quality Hotel Parkway Convention Centre, 327 Ontario Street, St. Catharines, ON

Contact Information

HEAD OFFICE
421 Bay Street, P.O. Box 7000,
Sault Ste. Marie, Ontario, P6A 5P6
(705) 946-7200
www.algonet.com

EXECUTIVE OFFICE
63 Church Street, Suite 600,
St. Catharines, Ontario, L2R 3C4
(905) 687-7888

ALGOMA TANKERS LIMITED
63 Church Street, Suite 600,
St. Catharines, Ontario, L2R 3C4
(905) 687-7888

ALGOMA CENTRAL PROPERTIES INC.
ALGOMA HOTELS LTD.
421 Bay Street, P.O. Box 7000,
Sault Ste. Marie, Ontario, P6A 5P6
(705) 946-7220
63 Church Street, Suite 201,
St. Catharines, Ontario, L2R 3C4
(905) 687-7880

FRASER MARINE & INDUSTRIAL
1 Chestnut Street,
Port Colborne, Ontario, L3K 1R3
(905) 834-4549

MARBULK CANADA INC.
Suite 3000, 700 2nd Street SW,
Calgary, Alberta, T2P 0S7

MARBULK SHIPPING INC.
Chelston Park, St. Michaels,
Barbados

ALGOMA SHIPPING INC.
ALGOMA TANKERS INTERNATIONAL INC.
Whitepark House, Whitepark Road,
Bridgetown, Barbados

SEAWAY MARINE TRANSPORT
20 Corporate Park Drive, Suite 300,
St. Catharines, Ontario, L2S 3W2
(905) 988-2600
www.seawaymarinetransport.com

LAKEN SHIPPING CORPORATION
SMT (USA) INC.
1250 Old River Road, Suite 2N,
Cleveland, Ohio, 44113
(216) 771-1999

(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

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
TIM S. DOOL	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	UO	11,240
ALGOCANADA	UO	11,240
ALGOMA HANSA	UO	16,175

Algoma Shipping Inc.
Self-Unloaders

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

Algoma Shipping Inc.
Bulk Carriers

ALGOMA SPIRIT	UO	35,500
ALGOMA DISCOVERY	UO	35,500
ALGOMA GUARDIAN	UO	35,500

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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