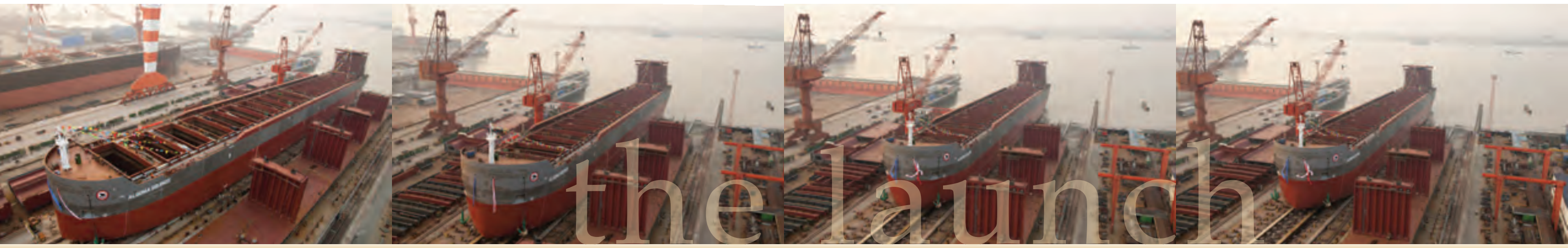
2012 ANNUAL REPORT

Algoma Central Corporation

Domestic Dry-Bulk		Product Tankers		Ocean Shipping		Real Estate
Dry-bulk Shipping	**Algoma Ship Repair**	**Algoma Tankers**	**Algoma Tankers International Inc.**	**Algoma Shipping Ltd.**	**Marbulk Canada Inc. Marbulk Shipping**	**Algoma Central Properties Inc.**
Owns 19 self-unloaders 7 bulkers *8 Equinox Class vessels on order*	Provides ship repair & steel fabrication services	Owns 7 domestic tankers	Owns 1 foreign-flag tanker	Owns 2 self-unloaders & 3 bulkers	Owns 4 self-unloaders	Owns and manages properties in Sault Ste. Marie St. Catharines Waterloo
100%	100%	100%	100%	100%	50%	100%

ABOUT THE COVER

The front cover shows the first of eight new *Equinox Class* vessels , the *Algoma Equinox*, being launched on December 24, 2012 at the Nantong Mingde Shipyard in Nantong , China. Delivery of the *Algoma Equinox* will be in April in China and the vessel will then enter Canadian service in late June or early July. The balance of the vessels will follow through 2013 and 2014. The *Equinox Class* will include both self-unloaders and gearless bulk carriers. Developed by the Corporation together with a team of world class designers, architects, engineers and researchers, these state-of-the-art vessels represent the next generation of Great Lakes dry-bulk carriers. The *Equinox Class* design balances hull form, power and speed with optimal operating performance and environmental efficiency. These new vessels will improve operating efficiencies while at the same time reducing fuel consumption, air emissions, and other environmental impacts.



ALGOMA EQUINOX

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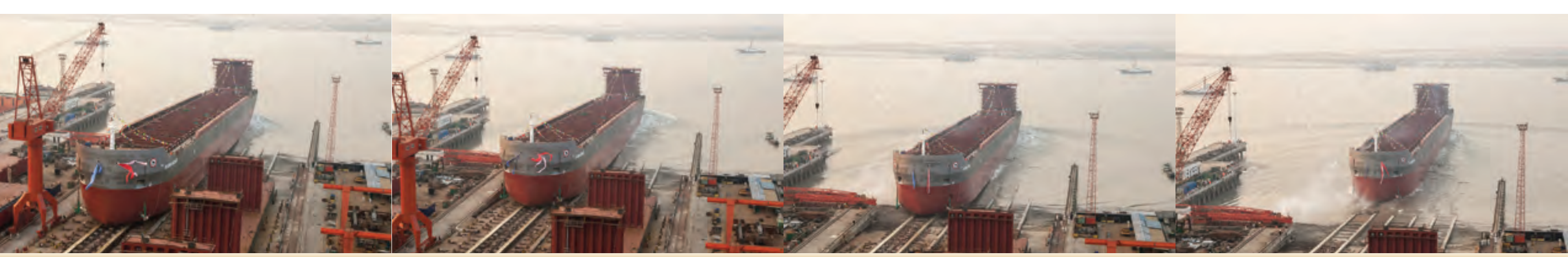
EQUINOX CLASS



About the Corporation

The Corporation's origins trace back to its creation as a railway in Sault Ste. Marie, Ontario in 1899. The Corporation's executive offices are located in St. Catharines, Ontario. The Corporation employs approximately 2,000 people worldwide and has assets of $884 million and revenues of $560 million. The Corporation owns Canada's largest fleet of vessels operating on the Great Lakes – St. Lawrence Waterway.

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the Corporation's 26 – vessel domestic dry-bulk fleet. The dry-bulk vessels carry cargoes of raw materials such as coal, grain, iron ore, salt and aggregates and operate throughout the Great Lakes – St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. This segment also includes a diversified ship repair and steel fabricating facility active in the Great Lakes and St. Lawrence regions of Canada.

The Product Tankers marine transportation segment includes ownership and management of seven Canadian-flag tanker vessels operating on the Great Lakes, the St. Lawrence Seaway and the east coast of North America. It also includes the ownership of one product tanker engaged in international trades.

The Ocean Shipping marine transportation segment includes direct ownership of two ocean-going self-unloading vessels and a 50% interest through a joint venture in an ocean-going fleet of four self-unloaders. The ocean vessels are engaged in the carriage of dry-bulk commodities in international trades.

The Real Estate segment owns and manages commercial real estate in Sault Ste. Marie, Waterloo and St. Catharines, Ontario.

Financial Highlights

In thousands except per share figures

For the year		2012		2011
Revenue	$	**560,377**	$	582,690
Net earnings	$	**43,819**	$	68,844
Operating ratio *(Note 1)*		**81%**		80%
EBITDA	$	**122,612**	$	136,117
Cash flow generated from operating activities	$	**84,217**	$	103,844
Additions to property, plant and equipment and investment properties, net	$	**71,728**	$	37,998
Business acquisition	$	**-**	$	86,752
Dividends paid per common share *(Note 2)*	$	**0.22**	$	0.18
Basic earnings per common share	$	**1.13**	$	1.77
Return on capital employed *(Note 3)*		**8.3%**		8.2%
Adjusted return on capital employed *(Note 4)*		**12.5%**		11.3%
Return on equity		**9.1%**		15.7%
Total shareholder return *(Note 5)*		**41.0%**		11.0%
At December 31				
Total assets	$	**883,714**	$	874,397
Shareholders' equity	$	**498,988**	$	468,720
Long-term debt (including current)	$	**225,726**	$	231,982
Equity per common share	$	**12.82**	$	12.05
Common shares outstanding		**38,912,110**		38,912,110

Note 1 - Operating ratio is defined as operating expenses plus depreciation on property, plant and equipment and investment property as a percent of revenue.

Note 2 - Per common share amounts have been restated to reflect the common share split by way of a stock dividend of nine common shares for each common share held effective December 14, 2012.

Note 3 - Return on capital employed is defined as segment operating earnings after income taxes expressed as a percent of average opening and closing capital employed. Capital employed is long-term debt plus shareholders' equity.

Note 4 - Adjusted return on capital employed is defined as segment operating earnings after income taxes expressed as a percent of adjusted average capital employed. Adjusted average capital employed is capital employed less the average cash in excess of $10 million and less the average amount of instalments on ship-building contracts, reflecting the fact that these assets are currently not generating operating earnings.

Note 5 - Total shareholder return is defined as the percentage increase in the year in the common share price plus dividends paid.

Message to Shareholders

It would be very difficult to provide an overview of our 2012 results without first re-visiting the events of 2011 which we referred to last year as “game changing”. These events, when looked at in their totality, have re-shaped the future of the Corporation in a very positive way.

Our significant domestic fleet renewal program, referred to as the *Equinox Class* project, consists of eight vessels, with six to be owned by the Corporation and the other two owned by the CWB (formerly Canadian Wheat Board) but operated by the Corporation. *Equinox* was the catalyst that sparked the events of 2011.

These eight new *Equinox Class* vessels, four gearless bulk carriers and four self-unloaders, together with the new coastal vessels, *Radcliffe R. Latimer* and *Algoma Mariner*, delivered in 2010 and 2011 respectively, will significantly modernize our domestic dry-bulk fleet. These vessels will provide much needed improvements in both operating efficiency and environmental performance.

The next key event was the acquisition of the Upper Lakes Group Inc. vessels and partnership interest relating to our joint domestic shipping operations (the ULG Transaction). With this acquisition, the Corporation has been able to implement cohesive strategic initiatives consistent with our stated objective of having ONE Vision, with ONE Purpose and operating as ONE Team.

Coincident with the closing of the ULG Transaction, we restructured and consolidated our domestic shipping operations by combining our domestic dry-bulk group with our domestic product tanker group. This consolidation, which included commercial and operational personnel, as well as the support functions of finance, business information systems, procurement and human resources, has proven to be very successful and well received, both from an efficiency perspective and a synergistic perspective. This combined group now is able to manage and plan our business consistent with our ONE Vision, ONE Purpose, ONE Team strategic focus.

All that remains in this process is the combining of our two St. Catharines offices. It is expected that by the end of August 2013 our entire domestic shipping operations and our corporate team will be located in a single office location in St. Catharines.

The final piece to fall in place in 2011 was the renewal and expansion of our credit facilities. These new credit facilities, which are both well-priced and long-term in nature, include a senior secured portion consisting of a $150 million five-year revolving facility and $150 million of ten-year notes and a subordinated unsecured portion consisting of $69 million of seven-year convertible debentures. With these facilities in place, the Corporation is well capitalized to execute its fleet renewal strategy, its acquisition strategy and to respond to future opportunities as they arise.

Following these significant accomplishments in 2011, the Corporation’s strategic plan was re-visited and our Strategic Vision was restated to be – “Continual growth of long-term Shareholder Value while operating in a sustainable manner and always being governed by our core values”.

Coming out of this strategic planning process were two key initiatives to drive further increases in Shareholder Value. The first was the resources that were dedicated to the *Equinox Class* project to ensure the eight new state-of-the-art vessels are delivered on time, on budget and according to the design specifications. At this point in the project, steel cutting has taken place for all eight vessels, keels have been laid for five vessels and the first vessel, the *Algoma Equinox* was launched on December 24, 2012. We are very pleased with the quality of workmanship at the Nantong Mingde Shipyard in Nantong, China although we continue to push for an accelerated work schedule. We expect to take delivery of the *Algoma Equinox* in late April in China and the vessel will then enter Canadian service in late June or early July. The balance of the vessels will follow through 2013 and 2014.

Our other strategic focus in 2012 was the refinement and expansion of the Return on Capital Employed (ROCE) Improvement Plan that was initiated in 2011. This Plan now encompasses all four of our business segments, with the goal to develop and implement strategies to increase the ROCE for existing assets to our target levels. The key areas of focus for this Plan in 2012 continued to be cost control, incident reduction, minimized unproductive time and improved asset utilization. We have seen many tangible, positive results from these initiatives and will continue this focus throughout 2013 looking for further ROCE Improvements.

We are committed to achieving continued growth in Shareholder Value and are confident the positive initiatives undertaken in 2011 and 2012 will deliver success.

In addition to the forgoing significant events in 2012, we would like to make mention of a few other highlights that occurred during the year.

- The Corporation was chosen as one of the winners of the Best Managed Companies program for 2012. Canada's Best Managed Companies, which continues to be the mark of excellence for Canadian-owned and managed private companies and closely held public companies, is sponsored by Deloitte LLP, Canadian Imperial Bank of Commerce, National Post, Queen's School of Business and MacKay CEO Forum.
- The Corporation placed 5th in Marine Money Magazine's 2011 Rankings of 84 global publicly traded shipping companies as announced in July 2012. This ranking improved 27 places from our 32nd place in 2010. The annual Marine Money Rankings, which are designed to measure a company's ability to improve operating efficiency and to create shareholder value, are based on an average of measures including total return to shareholders, return on equity, return on assets, total asset turnover and price-to-book ratio.
- The Corporation's fourth Satisfaction Survey of our domestic customers was completed in 2012. This survey measured four main performance areas; marketing and sales support, vessel traffic and logistics, cargo operations and administration. The key findings of the survey, which were consistent with the previous three surveys, were that customers are very satisfied, we substantially outscored our competition, performance ratings are increasing and customers are loyal.
- On December 14, 2012 the Toronto Stock Exchange closed with the Corporation's shares (ALC.TXS) trading at $129.50 and reopened on December 17th with the shares trading at $12.95, reflecting a stock dividend of nine shares for every one share held (10 for 1 split). This share split was done to make the Corporation's shares more accessible to a broader group of retail investors. We have seen considerable interest in the Corporation over the last few years and we wanted to take steps to make an investment in our common shares affordable to smaller investors, including our employees. In fact, since December 17th the volume traded has increased by 30% over the prior 12 month period. For 2012 the Total Shareholder Return (TSR) for Algoma Central Corporation shareholders was 41%. This follows TSR's of 11% for 2011 and 21% for 2010. Over the ten-year period ended December 21, 2012, the TSR for the Corporation's common shares grew at a compound rate of 13%.
- The Corporation's annual per share dividend increased to $0.22 per share ($2.20 before the 10 for 1 split). The quarterly dividend was increased twice during the year with the March quarterly dividend increased by $0.005 and the September quarterly dividend increased by $0.01. The December dividend payment marked the 71st consecutive quarterly dividend paid to shareholders.
- The arbitration hearing relating to the Corporation's cancellation (through a wholly-owned subsidiary) of the three shipbuilding contracts with Jiangxi Jiangzhou Union Shipbuilding Co. Ltd. (JZU) took place in London, England in September 2012. Although the Arbitration Panel has not yet rendered a

decision in this matter, we believe that during the Arbitration we were able to support our position that the cancellation of these contracts occurred within the permitted cancellation terms. Payments made to JZU in the amount of US$35.4 million are backed by refund guarantees issued by major Chinese banks. Our right to demand payment on the refund guarantees has been stayed pending the outcome of the arbitration.

Financial Results

The Corporation's consolidated revenues were $560.4 million compared to $582.7 million in 2011. The $22.3 million decrease was due mainly to reduced utilization of our domestic fleet.

Net earnings for 2012 were $43.8 million or $1.13 per share compared to 2011 net earnings of $68.8 million or $1.77 per share. The main factor impacting the comparability of 2012 and 2011 was the timing of the ULG Transaction in 2011. Had the transaction occurred at January 1, 2011 instead of April 14, 2011 the reported net earnings for 2011 would have been reduced by $15.1 million to $53.7 million.

The variance between reported 2012 net earnings and pro-forma 2011 net earnings was $10.1 million. The main factors contributing to this variance were:

- Improvement in operating earnings net of tax offset by the following:
- Reduction in the impairment reversal.
- Increase in net loss on translation of foreign denominated monetary assets and liabilities.
- Increase in financial expense mainly due to an increase in mark-to-market losses on derivatives related to fleet renewal contracts.
- Increase in income tax expense relating to the Ontario announcement that it will defer indefinitely planned reductions to the provincial corporate tax rate.

Cash flow from operating activities for 2012 totalled $84.2 million or $2.16 per share compared to $103.8 million or $2.67 per share in 2011. This decrease of $19.6 million ($0.50 per share) relates primarily to the timing of the ULG Transaction in 2011. As the Transaction closed on April 14, 2011, our former partner was responsible for a significant share of the spending on winter lay-up last year. Had this acquisition been effective as at January 1, 2011, Algoma would have incurred these costs and our reported net earnings would have been $15.1 million lower, with a corresponding reduction in cash flow reported for last year.

This cash flow was used to fund dividends of $8.4 million, repay non-revolving long-term debt of $6 million and to fund $79.7 million of our capital expenditure program, with the majority of this amount being related to our Equinox Class project.

Sustainability

Sustainability is a key defining element of our Strategic Vision. This Strategic Vision as stated earlier is "Continual long-term growth in Shareholder Value while operating in a sustainable manner and always being governed by our core values".

In 2013, we will be highlighting our sustainability initiatives and achievements with the publication of our inaugural Sustainability Report. This report, which will replace our Environmental Report, will focus on our four main sustainability tenets of Operations Excellence, Environmental Responsibility, Social Responsibility and Corporate Governance. This report will highlight some of our most significant sustainability accomplishments in 2012 as well as challenges and improvement initiatives.

Our 2012 accomplishments include:

- The strategies we have implemented in the areas of cost control, reduced incidents, minimized unproductive time and improved asset utilization as part of our ROCE Improvement Plan. In 2012 our ROCE after adjusting for deposits on vessels under construction and not delivered into service, was 12.5% compared to adjusted ROCE for 2011 of 11.3%. In arriving at the 2011 result, we also took into account the timing of the ULG Transaction.
- The significant contribution of our *Equinox Class* vessels to reduce emissions to the air and water. We anticipate a 45% reduction in emissions per tonne kilometre as a result of more efficient engines, a hull form that produces less resistance through the water and the significant increase in carrying capacity. In addition, the installation of exhaust gas scrubbers will remove 97% of sulphur oxide emissions generated by the main engines and auxiliary generators. The Equinox Class vessels, when delivered, will fully meet our stated objective of improving the efficiency of our fleet while at the same time reducing our environmental impact.
- Continued focus on our employee health and welfare programs, worker safety practices and our community involvement. We continue to enhance our worker safety practices and programs with the stated goal to achieve zero personal incidents. Although this goal has not yet been achieved, we have reduced our lost time injury frequency per 200,000 hours for all business units combined by 42% over the last five years.

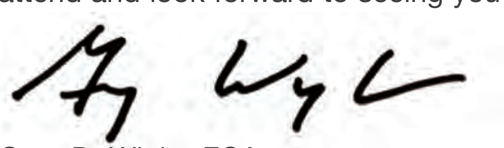
Outlook for 2013

We continue to be concerned that any negative outcomes in the world economy in general and the European markets in particular will have a dampening impact on the North American economy in 2013. As the North American economy is the key driver for many of our customers' activities, such a result would certainly impact our utilization level.

That being said, the Corporation is well positioned with a diversified customer base, both from a market segment perspective and a geographical perspective. In addition, we look forward to realizing the significant operating efficiencies our new *Equinox Class* vessel will deliver.

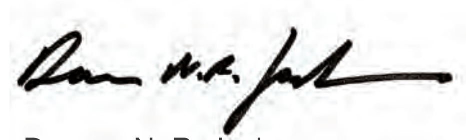
On behalf of the Corporation and our employees, we would like to express our appreciation to our customers and business partners for their business and support and the confidence they place in Algoma Central Corporation. Our success is due to our customers but is only made possible by the hard work and dedication of each and every one of our over 2,000 employees and the strong leadership and guidance of our Board of Directors.

The Annual Meeting of Shareholders will be held in St. Catharines on May 3, 2013. We invite you to attend and look forward to seeing you at that time.



Greg D. Wight, FCA

President and Chief Executive Officer



Duncan N. R. Jackman

Chairman of the Board

Management's Discussion and Analysis

General

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

This Management's Discussion and Analysis ("MD&A") of the Corporation should be read in conjunction with its consolidated financial statements for the years ending December 31, 2012 and 2011 and related notes thereto and has been prepared as at February 22, 2013.

The MD&A has been prepared by reference to the disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on the Corporation, including its 2012 Annual Information Form, is available on the SEDAR website at *www.sedar.com* or on the Corporation's website at *www.algonet.com*.

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

On December 14, 2012, a stock dividend of nine common shares for each common share held was paid resulting in 38,912,110 common shares outstanding. Prior period comparatives to earnings per share calculations have been adjusted to reflect the stock dividend.

Use of Non-GAAP Measures

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

Return on capital employed refers to segment operating earnings after income taxes expressed as a percentage of average opening and closing capital employed. Capital employed is long-term debt 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.

The Corporation also uses Adjusted Return on Capital Employed (AROCE) to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders and, in conjunction with other measures of operating performance, as one of the metrics for purposes of determining incentive compensation. The Corporation defines AROCE as segment operating earnings after income taxes expressed as a percentage of adjusted average capital employed. Adjusted average capital employed is average capital employed, less the average cash in excess of $10 million and less the average amount of instalments on shipbuilding contracts, reflecting the fact that these assets are currently not generating operating earnings.

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

EBITDA refers to earnings before interest, taxes, depreciation, and amortization. EBITDA is not a recognized measure for financial statement presentation under generally accepted accounting principles as defined by IFRS. EBITDA is not intended to represent cash flow from operations and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by IFRS. The Corporation's EBITDA may also not be comparable to EBITDA used by other corporations, which may be calculated differently. The Corporation considers EBITDA to be a meaningful measure to assess its operating performance in addition to other IFRS 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.

Caution Regarding Forward-Looking Statements

Algoma Central Corporation's public communications often include written or oral forward-looking statements. Statements of this type are included in this document and may be included in other filings with Canadian securities regulators or in other communications. All such statements are made pursuant to the safe harbour provisions of any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2013 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price and the results of or outlook for our operations or for the Canadian and U.S. economies. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

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

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

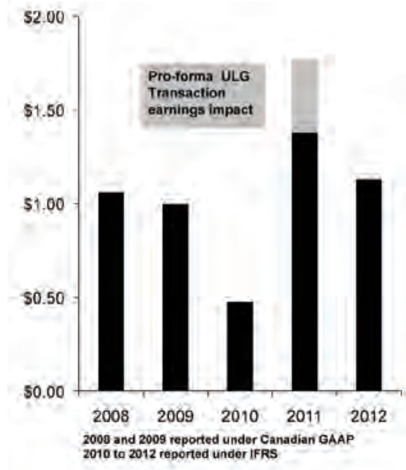
For more information, please see the discussion on pages 13 to 17 in the Corporation's Annual Information Form for the year ended December 31, 2012, which outlines in detail certain key factors that may affect the Corporation's future results. This should not be considered a complete list of all risks to which the Corporation may be subject to from time to time. When relying on forward looking statements to make decisions with respect to the Corporation, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. The Corporation does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives and may not be appropriate for other purposes.

Overall Performance

The Corporation is reporting net earnings for the twelve months ended December 31, 2012 of $43,819 compared to net earnings of $68,844 for the same period in 2011. The main factor impacting the comparability of 2012 and 2011 was the timing of the acquisition of the Upper Lakes Group Inc. vessels and interest in our Domestic Dry-Bulk business (the ULG Transaction) in 2011. Had the transaction occurred at January 1, 2011 instead of April 14, 2011 the reported net earnings for 2011 would have been reduced by $15,067 to $53,777.

Basic Earnings Per Share

(IN DOLLARS)



The Domestic Dry-Bulk segment's operating earnings net of income tax decreased from $36,573 in 2011 to $31,644. The comparability of the results for 2012 to 2011 for the Domestic Dry-Bulk segment has been affected by the ULG Transaction, resulting in the Corporation recognizing 100% domestic dry-bulk operations in 2012 while in 2011 we recognized only 59% of the first quarter loss on the domestic dry-bulk fleet. Had the ULG Transaction occurred on January 1, 2011, the Domestic Dry-Bulk segment would have reported operating earnings net of income tax for 2011 of $21,506, a decrease of $15,067 compared to the reported figure. Taking this adjustment into account, the operating earnings for this segment have increased significantly in 2012, primarily as a result of improved mix of business and reductions in operating costs.

The Product Tanker segment operating earnings net of income tax decreased from $13,695 to $9,270 mainly as a result of increased professional fees in connection with the arbitration process related to the refund of deposits on rescinded contracts to build three product tankers for international service.

The operating earnings net of income tax of the Ocean Shipping segment for 2012 were $14,999 compared to $15,476 for 2011. The decrease resulted from reduced vessel revenues due to sale of the *Ambassador* in 2012 and an increase in costs related to dry-dockings, which offset other operating income improvements.

The Real Estate segment operating earnings net of income tax decreased from $3,383 in 2011 to $3,114 in 2012 due to decreases in occupancy and an increase in depreciation.

Financial expense for 2012 was $11,640 compared to $8,568 for 2011. The increase of $3,072 was due primarily to mark-to-market adjustments recognizing the change in the period in the fair value of certain currency contracts.

Other factors affecting the comparability of the 2012 results with 2011 include an increase in 2012 in the loss on the translation of foreign-denominated assets and liabilities and a revaluation gain recognized on an asset held for sale and a large impairment reversal, both recorded in 2011 that were not repeated in 2012.

Income tax expense for 2012 was $18,758 compared to $13,685 for the previous year. Included in 2012 is $3,255 relating to the Province of Ontario announcement that it will defer indefinitely planned reductions to the corporate tax rate.

Selected Annual Information

	2012	2011	2010
For year ended December 31			
Revenues	**$ 560,377**	$ 582,690	$ 393,702
Segment operating earnings, net of tax	**$ 59,777**	$ 73,628	$ 21,140
Net earnings	**$ 43,819**	$ 68,844	$ 18,556
Basic earnings per common share	**$ 1.13**	$ 1.77	$ 0.48
Diluted earnings per common share	**$ 1.10**	$ 1.68	$ 0.48
At December 31			
Total assets	**$ 883,714**	$ 874,397	$ 664,552
Total long-term financial liabilities	**$ 225,726**	$ 231,982	$ 118,369

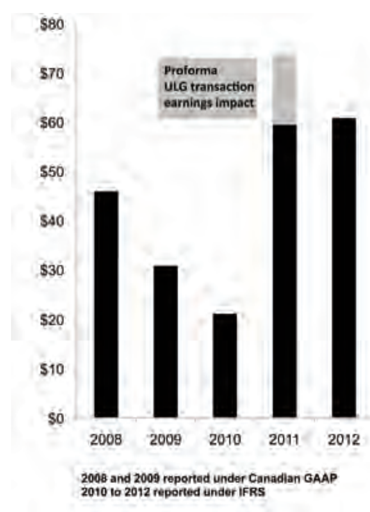
The increase in total assets in 2011 when compared to 2010 of $209,845 was due primarily to an increase in cash of $89,514 largely from the issue of the senior secured notes and cash from operations, payments made on the *Algoma Mariner* and installments on the new *Equinox Class* vessels.

The increase in long-term financial liabilities, which consists of long-term debt including the current portion, in 2011 when compared to 2010, was due primarily to the 2011 re-financing.

The increase in segment operating earnings net of income tax between 2010 and 2011 reflects substantially improved operating results as the Canadian economy recovered from the recession, as well as the impact of the ULG Transaction, in which we acquired the 41% interest in our domestic dry-bulk business that we did not previously own, including the related vessels. The reported decrease in segment operating earnings net of tax from 2011 to 2012 relates entirely to the timing of the ULG Transaction.

Segment Operating Earnings Net of Tax

(IN MILLIONS)



Results of Operations

The operating earnings net of income tax by segment are as follows:

		2012		2011
Operating earnings net of income tax				
Domestic Dry-Bulk	$	31,644	$	36,573
Product Tankers		9,270		13,695
Ocean Shipping		14,999		15,476
Real Estate		3,114		3,383
Impairment reversals of property, plant and equipment		750		4,501
		59,777		73,628
Not specifically identifiable to segments				
Net loss on translation of foreign-denominated monetary assets and liabilities		(3,028)		(2,073)
Financial expense		(11,640)		(8,568)
Income tax (expense) recovery		(1,290)		5,857
	$	43,819	$	68,844

The Corporation's MD&A on the results of operations for the year ended December 31, 2012 compared to 2011 is contained in the Overall Performance section on page 10. Additional information on certain line items from the earnings statement follows.

Revenues

Revenue by business segment is as follows:

		2012		2011
Domestic Dry-Bulk	$	375,554	$	389,172
Product Tankers		87,164		88,436
Ocean Shipping		67,668		75,089
Real Estate		29,991		29,993
	$	560,377	$	582,690

Revenue for the Domestic Dry-Bulk segment in 2012 declined compared to 2011. Total operating days were lower due to reductions in the construction materials, steel and salt sectors. There was a slight offset with an increase in agricultural products. In addition, some unusual weather in 2012 adversely affected some sectors served by this segment.

Revenue for the Product Tanker segment for 2012 declined when compared to 2011 due to reduced utilization and a reduction in cargo carried.

The decrease in Ocean Shipping revenue for 2012 compared to 2011 was due primarily to fewer operating days in 2012 relating to the sale of the *M.V. Ambassador* and the effect of regulatory dry-dockings. There were four dry-dockings in 2012 including two for our 100% owned vessels and three in 2011, all for jointly owned vessels.

Real Estate segment revenues for 2012 were virtually the same as 2011. Decreases in occupancy were largely offset by higher rental rates and recoverable costs at the Corporation's mall in Sault Ste. Marie.

Operating Expenses

The operating expenses by business segment are as follows:

	2012	2011
Domestic Dry-Bulk	$ **290,612**	$ 295,310
Product Tankers	**56,602**	54,714
Ocean Shipping	**42,293**	49,471
Real Estate	**17,969**	17,442
	$ **407,476**	$ 416,937

The decrease in operating expenses in 2012 when compared to 2011 of the Domestic Dry-Bulk segment was due primarily to fewer operating days resulting from lower utilization and improved cost management. Partially offsetting the decrease was the Corporation's share of the Domestic Dry-Bulk fleet's substantial winter works program increasing from 59% to 100% as a result of the ULG Transaction in April 2011.

Operating expenses of the Product Tankers segment in 2012 increased from $54,714 in 2011 to $56,602. The increase was due primarily to costs incurred during the required dry-docking of two tankers in 2012 versus no similar costs in 2011.

The decrease in operating expenses of the Ocean Shipping segment was due primarily to reduced operating days.

Real Estate segment operating expenses for 2012 compared to 2011 increased mainly as a result of general inflationary increases and an increase in unrecoverable costs due to vacancies.

General and Administrative

General and administrative expenses for 2012 increased marginally to $30,289 from $29,636 from 2011. Professional fees related to the arbitration hearing on the cancellation of the three shipbuilding contracts were largely offset by non-recurring expenses incurred in 2011 related to the ULG Transaction.

Depreciation of Property, Plant and Equipment and Investment Properties

Depreciation expense decreased from $47,148 in 2011 to $46,117 in 2012. Reductions in expense related to assets disposed of during the year was partially offset by the annualization of depreciation taken on the *Algoma Mariner* (delivered in May 2011) and the vessels acquired as a result of the ULG Transaction.

Financial Expense

Financial expense consists of the following:

		2012		2011
Interest expense on borrowings	$	**14,734**	$	12,703
Interest income on cash and cash equivalents		**(407)**		(162)
Amortization of financing costs		**1,246**		2,200
Interest capitalized		**(4,807)**		(4,806)
Net interest expense		**10,766**		9,935
Mark-to-market for derivatives that are not eligible for hedge accounting		**874**		(1,367)
	$	**11,640**	$	8,568

Interest expense on borrowings increased in 2012 compared to 2011 as a result of additional borrowings to finance the ULG Transaction and the investment in the *Equinox Class* vessels.

Amortization of financing costs for 2011 included $1,472 of deferred financing costs that were written off upon the completion of the Corporation's refinancing in July 2011.

Interest capitalized relates to the financing costs on installments on the *Equinox Class* vessels. In 2011, the Corporation capitalized additional interest related to instalment payments on the A*lgoma Mariner*.

The increase in expense on the mark-to-market for derivatives is a result of the fluctuations in the year of the fair value of certain currency contracts. These contracts are marked to market each period end and the gain or loss is dictated by the change in the value of the Canadian dollar compared to U.S. dollar.

Net Loss on Translation of Foreign Assets and Liabilities

The net loss on translation of foreign denominated assets and liabilities consists of the following:

		2012		2011
Gain (loss) on U.S. long-term debt	$	**1,658**	$	(3,132)
(Loss) gain on U.S. cash		**(2,663)**		1,836
Realized loss on return of capital from foreign subsidiaries		**(1,919)**		(315)
Other		**(104)**		(462)
	$	**(3,028)**	$	(2,073)

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

The increase in 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 foreign operations. In 2012, U.S. $51,140 (2011 – U.S. $13,250) was returned from foreign subsidiaries.

Income Tax Provision

Income tax expense increased to $18,758 for 2012 compared to $13,685 in 2011. The primary reason for the increase in tax expense related to the announcement by the Province of Ontario that it will defer indefinitely the planned reductions to corporate tax rates.

The Canadian statutory rates for the Corporation for 2012 and 2011 are 26.5% and 28.3% respectively. Any variation in the effective income tax rate from the statutory income tax rate is due mainly to the lower income tax rates applicable to foreign subsidiaries, the effect of any non-taxable gains or losses that have been included in earnings and the effect of tax adjustments relating to corporate tax rate changes.

Comprehensive Earnings

Comprehensive earnings for 2012 were $38,706 compared to $61,214 for the comparable period in 2011.

The decrease in 2012 was due to lower earnings from operations and a loss on the translation of financial statements of foreign operations resulting from a weakening of the U. S. dollar. Partially offsetting these amounts was a decrease in the actuarial loss on employee future benefits caused by a reduction in the discount rate used to value the obligations. In 2012, this rate declined by 50 basis points to 4.0% compared to 4.5% for 2011.

Internal Controls over Financial Reporting

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

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

	2012	2011	Decrease
Net earnings	**$ 43,819**	$ 68,844	$ (25,025)
Cash generated from operating activities	**$ 84,217**	$ 103,844	$ (19,627)
Cash used in investing activities	**$ 71,292**	$ 122,077	$ (50,785)
Cash (used) provided from financing activities	**$ (14,438)**	$ 106,888	$ (121,326)

Net Cash Generated from Operating Activities

Net cash generated from operating activities for 2012 decreased from $103,844 in 2011 to $84,217.

The decrease relates primarily to the timing of the ULG Transaction which closed on April 14, 2011 resulting in the former partner being responsible for their 41% share of the repair spending incurred in the first quarter of 2011. The Corporation would have incurred these costs if the transaction occurred on January 1, 2011. In addition, more cash was required in 2012 for interest payments for a full year relating to the 2011 re-financing versus a partial year in 2011.

Net Cash Used in Investing Activities

Cash used in investing activities in 2012 and 2011 of $71,292 and $122,077, respectively, was primarily for construction installments on the *Equinox Class* vessels, life extensions on three vessels and capitalized dry-dockings costs on certain vessels, and leasehold improvements on various rental properties.

Cash used in investing activities for 2011 was primarily for the ULG Transaction, installments on the *Equinox Class* vessels and the *Algoma Mariner*, and capital improvements at Station Mall in Sault Ste. Marie, Ontario.

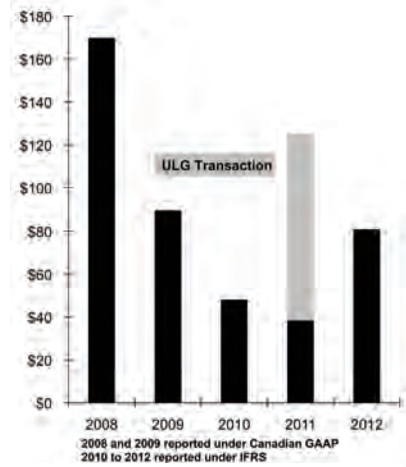
Net Cash Generated from Financing Activities

Included in the net cash used in financing activities in both periods are the repayments of debt and the payment of dividends to shareholders. Dividends were paid to shareholders at $0.22 and $0.18 per common share in 2012 and 2011 respectively.

Cash provided by financing activities in 2011 included the net proceeds from long-term debt required to assist in the financing of property, plant and equipment acquisitions and for repairs and maintenance of domestic dry-bulk vessels during the annual winter lay-up period.

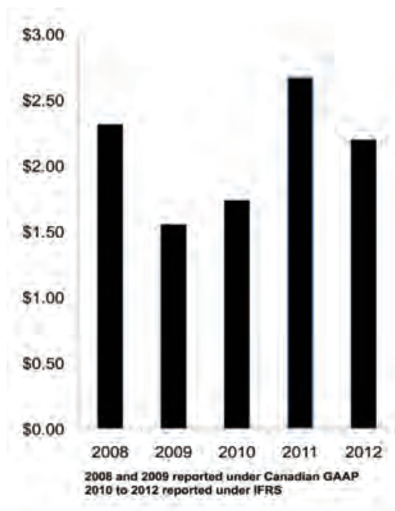
Cash Used in Investing Activities

(IN MILLIONS)



Cash Generated from Operations per Share

(IN DOLLARS)



Capital Resources

Cash and cash equivalents on hand at December 31, 2012 of $128,923, credit facilities and projected cash from operations for 2013 will be more than sufficient to meet the Corporation's planned operating and capital requirements and other contractual obligations for the year.

The Corporation maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs. The total authorized credit facilities at December 31, 2012 with the Corporations bank syndicate consisted of a $150,000 revolving facility of which $148,733 was available at December 31, 2012.

Contingencies

For information on contingencies, please refer to Notes 25 and 26 of the consolidated financial statements for the years ending December 31, 2012 and 2011. There have been no significant changes in the items presented since December 31, 2011.

Transactions with Related Parties

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

There were no transactions with related parties in 2012 and 2011 other than transactions prior to April 14, 2011 with the Seaway Marine Transport partnership as outlined in Note 7 in the notes to the consolidated financial statements.

Three-Month Results Ending December 31, 2012 and 2011

The Corporation is reporting net earnings for the three months ended December 31, 2012 of $24,527 compared to net earnings of $33,358 for the same period in 2011.

		2012		2011
Operating earnings net of income tax				
Domestic Dry-Bulk	$	**21,026**	$	23,791
Product Tankers		**2,755**		3,779
Ocean Shipping		**3,552**		6,089
Real Estate		**816**		648
Impairment reversals of property, plant and equipment		**-**		(565)
		29,149		33,742
Not specifically identifiable to segments				
Net loss on translation of foreign-denominated monetary assets and liabilities		**(634)**		(165)
Financial expense		**(977)**		(3,725)
Income tax (expense) recovery		**(2,011)**		3,506
Net earnings	$	**24,527**	$	33,358

The Domestic Dry-Bulk segment's operating earnings net of income tax decreased from $23,791 in 2011 to $21,026 in 2012. The Product Tanker segment's operating earnings net of income tax also decreased from $3,779 in 2011 to $2,755 in 2012. The decreases in both segments were the result of a reduction in vessel utilization during the fourth quarter reflecting poor weather conditions offset by a reduction in vessel operating costs in both segments.

The operating earnings net of income tax of the Ocean Shipping segment decreased to $3,552 in 2012 compared to $6,089 for the same period in 2011 due to the timing of regulatory dry-dockings which was partially offset by a gain on the sale of the *M.V. Ambassador*.

The Real Estate segment operating earnings net of income tax increased from $648 to $816 due primarily to income tax adjustments in 2012.

Financial expense decreased from $3,725 in 2011 to $977 in 2012. The decrease was due to the mark-to-market adjustment of the fair value of certain foreign exchange contracts, a result of the weakening of the Canadian dollar against the U.S. dollar.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 4 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-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligations and expense for the employee future benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. Those assumptions are disclosed in Note 17 to the Corporation's consolidated financial statements, the most significant of which are the discount rate, the rate of increase in compensation, expected rates of return on plan assets, the rate of increase in the cost of health care and the estimated average remaining service lives of employees, some of which are defined by regulation. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses as disclosed in Note 17 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 reported employee future benefit obligations and future expense.

Property, Plant and Equipment and Investment Properties

The Corporation reviews on a regular basis the depreciation periods of property, plant and equipment and investment properties 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 Estimates

Employee Future Benefits

Effective December 31, 2012 the Corporation lowered its assumed discount rate for purposes of calculating the accrued benefit obligation at December 31 from 4.5% to 4.0%. At December 31, 2011 the discount rate was lowered from 5.3% to 4.5%. The discount rate assumption is based on current long-term corporate bond rates which fluctuate due to market conditions. Decreases in the assumed discount rate will result in an increase in the accrued benefit obligation.

The effect on the consolidated financial statements resulting from the adoption of these new assumptions was an increase in the accrued benefit obligation of $8,644 (2011- $12,379) and increase in the actuarial loss of $8,644 (2011-$12,379).

Future Accounting Changes

Employee Future Benefits

Effective January 1, 2013, IAS 19, "Employee Benefits", eliminates the use of the corridor approach and requires actuarial gains and losses to be recognized immediately in other comprehensive income (OCI). The effect of the change is the plan net surplus/deficit position will be reflected in the Corporation's Consolidated Balance Sheets. Amounts recorded into OCI would not be reclassified to the Consolidated Statements of Earnings. The Corporation elected on conversion to IFRS on January 1, 2010 to recognize in opening OCI the cumulative net deficit previously unrecognized on the balance sheet; therefore, there is no effect on the balance sheet as of January 1, 2013.

In addition, the discount rate to be used for recognizing the net interest income/expense, which will be included in financial expense, is based on the rate at which the liabilities are discounted and not the expected rate of return on the assets. This will result in higher expense in the Consolidated Statements of Earnings in line with the funded status of the plan. The OCI balances will also be changing directly due to the changes in the actuarial gains and losses.

As a result of the change, the net earnings of the Corporation will decrease by approximately $1,500 resulting from lower expected returns due to the rate reduction and unvested benefits of $720 will flow through to OCI.

Consolidated Financial Statements

Effective January 1, 2013, IFRS 10, "Consolidated Financial Statements" ("IFRS 10") replaced the guidance on control and consolidation in IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation and supersedes SIC-12 in its entirety. This standard introduces a single, principle-based, control model for consolidation, irrespective of whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities (SPE). Control is based on an investor's current ability to use its power over the key activities of a subsidiary or SPE to affect its exposure or return generated by the subsidiary or SPE. An amendment to the standard was subsequently issued which provided additional transition guidance.

Joint Arrangements

Effective January 1, 2013, IFRS 11, "Joint Arrangements" ("IFRS 11") supersedes IAS 31, "Interest Joint Ventures" and Standing Interpretations Committee ("SIC") -13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". IFRS 11 requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement (a "joint venture") or to its share of the assets and liabilities of the joint arrangement (a "joint operation"). Joint ventures must be accounted for using the equity method, whereas joint operations must be accounted for by recognizing the venturer's right to assets and obligations for liabilities (i.e. proportionate consolidation). The standard is required to be applied retrospectively to the prior periods presented.

The Corporation has certain interests in joint arrangements which will be accounted for on the equity basis. There is no impact of the change on the Corporation relating to net earnings. Based on 2012, revenues will decrease by $32,506 and expenses will decrease by $24,488 and the Corporations earnings from the joint arrangements remain unchanged at $8,018. The effect on the balance sheet is assets will decrease by $21,144, consisting primarily of property, plant and equipment, and liabilities will decrease by $7,074. Under the new standard, the net investment in the joint arrangements of $14,070 will be presented as a separate line on the consolidated balance sheet.

Disclosure of Interests in Other Entities

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") broadens the definition of interests and requires enhanced disclosures on interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Fair Value Measurement

IFRS 13, "Fair Value Measurement", provides a definition of fair value, establishes a single framework for measuring fair value, and provides disclosure requirements for fair value used across all IFRS standards.

Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments require the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual reporting periods beginning on or after July 1, 2012.

The Corporation has determined there is no impact with the changes in the above three standards on its consolidated financial statements.

Financial Instruments

The IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace International Accounting Standard ("IAS") 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

The Corporation is currently evaluating the impact of this new pronouncement on its consolidated financial statements.

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 IFRS.

Management assessed the effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2012. 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, 2012. Management determined that there were no material weaknesses in the Corporation's internal controls over financial reporting as of December 31, 2012. There have been no changes in the Corporation's internal controls over financial reporting during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting.

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, 2012, 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, 2012, 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 certain of its debt instruments to manage risks associated with interest rate movements. At December 31, 2012 and 2011, the interest rate swap agreements had a negative fair value of $361 and $1,178 respectively. 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 the Corporation's domestic dry-bulk fleet.

The Corporation has foreign exchange forward contracts with major financial institutions of $102,621 and $164,037 as of December 31, 2012 and 2011 respectively. The foreign exchange forward contracts relate to the payments required under shipbuilding contracts for the construction of the six *Equinox Class* vessels. Foreign exchange forward contracts totalling U.S. $26,715 have options at various dates in 2013 to purchase U.S. funds at an average rate of 1.01. The remaining contracts totalling $75,906 have options at various dates throughout 2013 and 2014 to purchase U.S. funds at a rate not exceeding Canadian 1.05 and a barrier or floor rate of Canadian 0.99. The Corporation has not applied hedge accounting to these contracts and at December 31, 2012 and 2011 the fair market value for these contracts was unfavourable to the Corporation by $2,727 and $1,311, respectively.

Return on Capital Employed (ROCE)

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

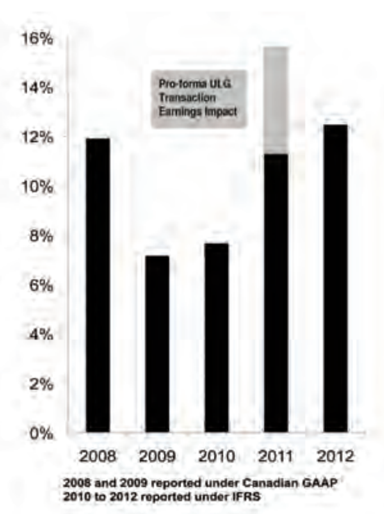
The ROCE over the last five years of the Corporation ranged from 8.2% to 11.3%.

The Corporation also uses Adjusted Return on Capital Employed (AROCE) to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders and, in conjunction with other measures of operating performance, is one of the metrics for purposes of determining incentive compensation.

The AROCE for 2012 was 12.5% versus 11.3% for 2011 and has averaged 11.0% over the five years ended December 31, 2012.

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

Adjusted 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)	Basic earnings (loss) per share
2012	Quarter 4	$ 155,176	$ 24,527	$ 0.63
	Quarter 3	$ 173,422	$ 29,914	$ 0.77
	Quarter 2	$ 165,648	$ 20,518	$ 0.53
	Quarter 1	$ 66,131	$ (31,140)	$ (0.80)
2011	Quarter 4	$ 185,050	$ 33,358	$ 0.86
	Quarter 3	$ 184,234	$ 35,003	$ 0.90
	Quarter 2	$ 156,220	$ 17,496	$ 0.45
	Quarter 1	$ 57,186	$ (17,013)	$ (0.44)

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

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

Contractual Obligations

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

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Repayment of long-term debt including equity component	$ 6,000	$ 10,000	$ 3,500	$ 218,618	$ 238,118
Capital asset commitments	112,244	65,802	-	-	178,046
Employee future benefit payments	3,288	6,130	3,264	3,794	16,476
	$ 121,532	$ 81,932	$ 6,764	$ 222,412	$ 432,640

The Corporation has contracts for the construction of six new *Equinox Class* vessels with Nantong Mingde Heavy Industries of China. Delivery of these vessels is expected to commence in mid 2013 and continue into 2014.

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 immaterial may also materially and adversely affect the Corporation's business operations.

Shipboard Personnel

The long-term challenge of recruiting and retaining skilled crews in the marine industry continues to be an area of focus. The limited number of training schools, the challenge of recruiting new employees into the marine industry and competition for skilled labour from other sectors are all factors to be addressed by the marine industry as a whole. A lack of properly skilled shipboard employees could lead to service delays and interruptions. The Corporation continues to work with industry groups, its unions and educators to develop and enhance training programs to ensure an adequate supply of labour is available to meet its future needs.

Unions

The majority of the positions on the Corporation's domestic vessels are unionized. Failure to enter into new collective agreements with any of the unions representing workers could result in service interruptions. The Corporation believes it offers fair and competitive compensation packages and does not expect service interruptions.

Partnering

The Corporation operates a portion of its business 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 provide includes 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 each of the partnerships.

Outsourcing

The Corporation contracts certain of its information technology and 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 and financial results 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. The Corporation deals with leading international companies for these services.

Service Failure

The Corporation's customers demand a high standard of operations 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 "Operations Excellence" is a high priority for each business unit.

Health and Safety

The Corporation places significant emphasis on health and safety management, and is committed to the prevention of human injury and loss of life. An unsatisfactory safety record could lead to significant fines and penalties and a reduction in customer confidence in our ability to perform the required service. In the case of a significant customer, it could also lead to the termination of the service agreement.

Property, Plant and Equipment

The failure by a shipyard to complete the construction of a vessel under development would impact on the Corporation's ability to replace existing assets and expand the business. The Corporation has committed approximately $300,000 for the construction of six *Equinox Class* vessels with delivery dates currently estimated to extend through 2014. These vessels are important to the modernization and service capacity of its fleet and to the business strategy of the Corporation. The shipbuilder has been carefully selected and a knowledgeable supervision team is in place at the shipyard to ensure successful completion. In addition, the Corporation holds refund guarantees from the shipyard's bankers for installments made by the Corporation.

A significant portion of the funding for the additions to property, plant and equipment will come from internally generated cash flows, but due to the magnitude of the commitments, additional financing was required. The Corporation has secured credit facilities expiring on various dates through July 2021, including a revolving bank facility with a syndicate of six leading banks that will meet the cash requirements for its existing commitments.

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 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 and cargo are being scrutinized worldwide.

The year 2012 marked the commencement of implementation of progressively stricter rules for marine air emissions in North America. The North American Emissions Control Area (ECA), which governs air emissions along North American ocean coasts, and the U.S. Environmental Protection Agency's rules regulating the U.S. waters of the Great Lakes, both came into force on August 1, 2012. These rules limit the sulphur content of marine fuels to 1.0% effective as of August 1, 2012 and 0.1% effective as of August 1, 2015.

Under a reciprocal agreement between the U.S. and Canada, a 'Fleet Averaging' framework for Canadian flag vessels, including those of the Corporation, will be put in place to coincide with the imposition of the U.S. ECA. Fleet Averaging will allow Canadian-flag ship owners to achieve a reduction in emissions across their fleets in a phased-in manner through the period ending 2020. The Fleet Averaging framework recognizes that reductions in marine emissions will be achieved through a variety of improvement programs such as the addition of new more efficient vessels, the use of exhaust gas scrubbers, fuel switching to low sulphur content fuels and other efficiency gains. The Corporation's addition of highly efficient *Equinox Class* ships, each equipped with exhaust gas scrubbers, will satisfy the air emission rules. The Corporation's other vessels are capable of using lower sulphur fuels to satisfy air emission rules, although the cost and availability of low sulphur fuels may be a risk.

The U.S. Environmental Protection Agency (EPA) has implemented a U.S. Federal permit program to regulate ballast water discharges from vessels in U.S. waters. Canada is a signatory to the International Maritime Organization (IMO) Convention on ballast water discharges and although the convention is not ratified, the Canadian government is considering its own regulations and rules. The Corporation and other stakeholders have repeatedly expressed their concern that a single regulatory approach is required for all domestic vessels operating in the Great Lakes-St. Lawrence Waterway. These stakeholders point to the U.S. Coast Guard rule which acknowledges that there is presently no ballast water treatment technology that is able to meet the unique Great Lakes operating conditions and that all domestic vessels should be treated equally and be exempted from the requirement to install ballast water treatment equipment.

The Corporation is certified to the International Safety Management Code, ISO 9001 Quality Management System and ISO 14001 Environmental Management System standards in its domestic dry-bulk and product tanker operations. In addition, 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 of its domestic shipping operations. Participants are required to implement specific best practices that will reduce the impact of their business activities on the environment. The results are communicated annually to the general public.

Published studies continue to demonstrate that marine transportation is the most environmental effective form of freight 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. Often, several different jurisdictions are able to exercise authority over marine transportation and vessel operations. For example, within the Great Lakes – St. Lawrence Waterway there are eight U.S. state governments and two Canadian provincial governments plus both federal governments. 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.

The Corporation has employees participating in a number of industry associations that advise and provide feedback on potential regulatory change and to ensure we maintain 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 in which the vessels load and unload have the effect of reducing cargo sizes and therefore reducing the profitability of these vessels. As a result of below normal precipitation in 2012, water levels of some Great Lakes have declined to record lows in January 2013.

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 effects 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 partial financial protection for the impact of 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.

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 diminished due to both cash inflows and outflows being denominated in the same currency.

The Corporation has significant commitments due for payment in U.S. dollars. The Corporation mitigates the risk associated with the U.S. dollar payments principally 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.

Employee Future Benefits

Economic conditions may prevent the Corporation from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any increase in the regulatory 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. Effective January 1, 2010, the Corporation closed its defined benefit plans to new members and adopted defined contribution plans for all new employees.

Judicial and other proceedings

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

Domestic Dry-Bulk

The Domestic Dry-Bulk segment includes the activities of the Corporation's Canadian flag dry-bulk vessels and our ship repair and steel fabrication business.

The Corporation's Canadian flag dry-bulk 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 vessel configurations, allows the Corporation to accommodate almost every dry-bulk shipping requirement. The Corporation's fleet complies with and is certified under the ISO: 9001 Quality Management standard, the ISM Code and the ISO 14001 Environmental Management standard. Certification is performed by Lloyds Register. In addition, all Corporation vessels have approved security plans that fully comply with Canadian and U.S. regulations and the International Ship and Port Security Code.

The Corporation's Canadian flag dry-bulk fleet consists of 19 self-unloading bulk carriers and seven gearless bulk carriers. 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. Traditional bulk carriers require shore-side facilities to discharge cargo. This type of vessel is primarily deployed in the movement of grain and iron ore.

The Corporation, together with several other marine industry stakeholders, is a founding member of Green Marine, a collaboration of marine industry stakeholder groups from both Canada and the U.S. that have implemented a voluntary environmental performance measurement and reporting program for the Great Lakes – Seaway Waterway. The goal of this program is to demonstrate and communicate the maritime industry's environmental performance and its commitment to improving both performance and its profile on environmental matters.

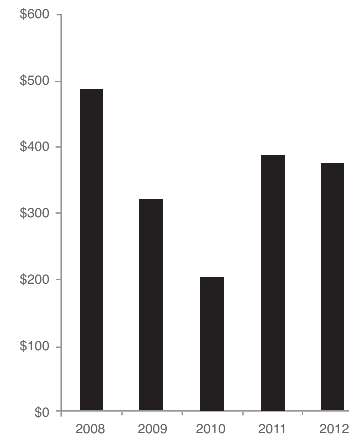
The successful delivery of the Corporation's new self-unloader *Radcliffe R. Latimer* in 2010 was followed in August, 2011 with the delivery of another new self-unloader, *Algoma Mariner*. Both vessels are seaway-max coastal class self-unloaders. They are 740' (225.6 metres) long and 78' (23.7 metres) wide. They have six cargo holds and a maximum deadweight of about 38,000 tonnes. Both vessels are classed by Lloyds Register for Great Lakes, St. Lawrence and coastal (North and South America) service and were built under Canadian flag and to full international SOLAS standards. The Corporation commissioned DeltaMarin, designers of Algoma's new *Equinox Class* dry-bulk cargo vessels, to develop a completely new stern for the *Algoma Mariner* that would take advantage of as many of the innovations used in the design of the new *Equinox Class* vessels as possible. As a result, the *Algoma Mariner* has a number of environmental and technical improvements, including being 25% more fuel efficient.

Revenues for this segment for 2012 were $375,553. This represents a 3.5% decline from prior year levels. Segment operating earnings net of tax for 2012 were $31,644 compared to $36,573 for 2011. The comparability of the results for 2012 to 2011 for the Domestic Dry-Bulk segment has been affected by the ULG Transaction, resulting in recognizing 100% in 2012 versus 59% in 2011 of the first quarter loss on the domestic dry-bulk fleet. Had the ULG Transaction occurred on January 1, 2011, the Domestic Dry-Bulk segment would have reported operating earnings net of income tax for 2011 of $21,506, a decrease of $15,067 compared to the reported figure. Total operating days of the Corporation in domestic dry-bulk activities declined 10.2% and the total amount of cargo carried by the Corporation in 2012 declined by 11.8% from 2011 levels. These declines are primarily attributed to reductions experienced in the construction materials, steel production and salt sectors, offset in part by increased activity in the agriculture sector. Although economic recovery continues in North America, the recovery has been slow in several of the sectors and regions served by the Corporation. In addition, as will be explained below, unusual weather conditions adversely affected some sectors served by the Corporation.

Revenue

Domestic Dry Bulk

(IN MILLIONS)



2008 to 2009 reported under Canadian GAAP
2010 and 2012 reported under IFRS

Effective cost control, operations excellence and continuous improvement are critical to the Corporation's goal of being the most competitive marine transportation service provider on the Great Lakes - St. Lawrence Waterway. A key measure of quality performance is incident costs. In 2012, incident costs, as a percentage of net revenues decreased to 3.5% from the 2011 level of 4.6%. The Corporation continues to focus our attention on improving these measures.

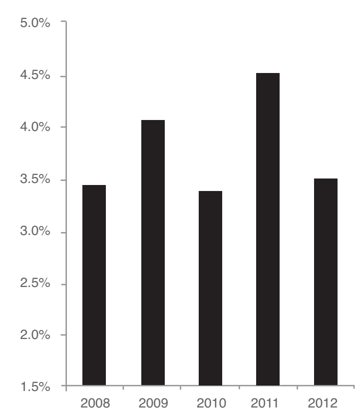
The Corporation serves a wide variety of major industrial segments, including iron and steel producers, aggregate producers, cement and building material producers, electric utilities, salt producers and agriculture product producers. Our customer base includes leading organizations in each market sector and service relationships are typically long-term in nature.

The demand for aggregates and construction materials across the Great Lakes region dropped in 2012 from 2011 levels. The Lake Carrier's Association reported that in 2012 Great Lakes based limestone shipments decreased by 3.6% from 2011 and is 7.0% below the five year average in this sector. The decrease experienced from Canadian quarries was more pronounced, recording a 9.0% decrease in 2012 and a 19% reduction from the five year average in this sector. The Corporation's vessel utilization in this sector decreased by 9.3% in 2012.

Incident Costs

Domestic Dry-Bulk

(PERCENTAGE OF NET REVENUE)



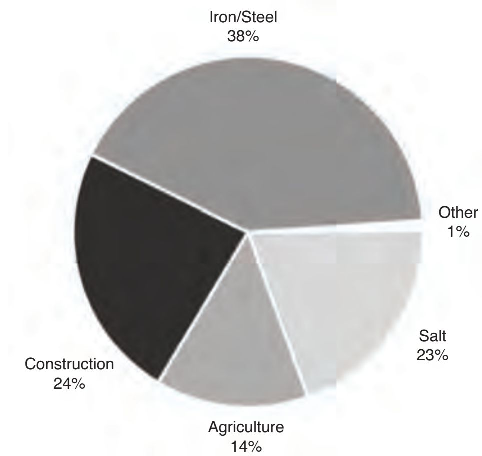
For 2012, the World Steel Association (WSA) has reported that U.S. raw steel production increased by 2.7% and Canadian raw steel production increased by 4.9% in 2012. Total world steel production increased by 1.2% to 1,548 million tonnes, a new global record. Again in 2012, stronger automotive demand led the way. Total tonnage carried by the Corporation for this sector in 2012 was 4.3% lower than in 2011. This represents a drop of 9.3% in utilization and represents the reduced requirements of one shipper.

In 2012, the Corporation's vessel utilization in the agricultural sector increased by 6.5%. A strong Canadian crop offset the impact of a widespread drought in the U.S. that negatively affected U.S. crop production and export shipments. Effective on August 1, 2012, the legislative monopoly held by the CWB (formerly the Canadian Wheat Board) for the export sales of western Canadian wheat and barley, officially ended. As of that date, any party that wishes to sell Canadian wheat and barley in export markets is able to do so. The CWB has focused its attention on restructuring and streamlining their operations to remain a competitive seller of grains in the new open market environment. The Corporation continues to work with the CWB as well as with other major grain sellers who have become active in export sales of Canadian wheat to help ensure shipment levels through the Great Lakes – St. Lawrence Waterway remain strong.

Industry Segments

Domestic Dry-Bulk

(BY TONNES)



Unseasonably mild weather conditions throughout most of the Great Lakes region during the 2012 winter season meant the demand for road salt was much lower than during a typical winter. As a consequence there was a much lower need to replenish salt inventories during the 2012 navigation season. An extended shutdown of one of the Corporation's major salt producing customers was also experienced during the year. As a result, the Corporation's vessel utilization in this sector dropped by 15.3% in 2012 from 2011 levels.

Considerable attention in 2012 was focused on the construction of the eight new *Equinox Class* vessels. Six *Equinox Class* vessels have been ordered by the Corporation, four self-unloaders and two gearless bulk carriers. Two more *Equinox Class* gearless bulk carriers have been ordered by the CWB which will be operated and managed by the Corporation. The first *Equinox Class* vessel, the gearless bulker to be named the *Algoma Equinox*, was launched on December 24, 2012. Completion and fitting-out of this vessel will continue over the next several months, following which the Corporation will take delivery and commence the long voyage to Canada.

The Corporation's new *Equinox Class* vessels have brought considerable excitement to the Corporation's domestic dry-bulk market segment. These ships will be able to carry significantly more cargo and move faster than conventional vessels. Newer engine technology will result in reduced fuel consumption, which means lower fuel costs and lower emissions. The new ships will be 45% more efficient than existing conventional vessels measured on a cargo-tonne-kilometer basis. In addition, each vessel will be built with exhaust gas scrubber. These scrubbers will remove 97% of the sulphur oxides emissions generated by vessel engines. The *Equinox Class* vessels are expected to be among the most efficient and environmentally advanced vessels operating in the world.

Ship Repair

The Corporation's ship repair business operates as Algoma Ship Repair ("ASR"). ASR 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, ASR 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 centres, ASR can quickly mobilize a work force in any Great Lakes port.

The ASR motto of "Anytime … Anywhere" recognizes the round-the-clock, mobile nature of the marine industry. During the summer months a core staff of supervisors and skilled workers is available for unscheduled and emergency repair work that inevitably occurs on both domestic and foreign vessels on the Great Lakes. During these months, ASR 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.

A focus on operational strengths and efficiencies has allowed ASR in 2012 to increase revenues, gross margins and operating earnings. Annual revenue fluctuations are primarily a result of shipping companies' year to year repair variances. ASR continues to make positive contributions to the Domestic Dry-Bulk financial results.

ASR 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.

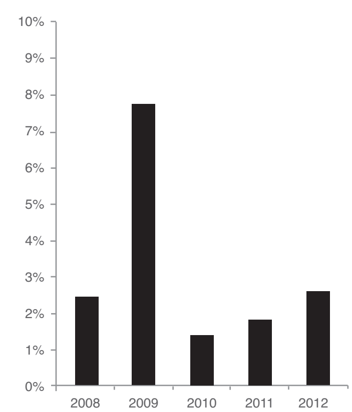
Product Tankers

The Corporation's product tanker segment serves both domestic and international markets. This segment consists of seven double-hull product tankers employed in domestic Canadian flag service and one product tanker trading in international markets. The Corporation has invested significantly to create and sustain the most modern tanker fleet operating in the Great Lakes, St. Lawrence and Atlantic Canada market areas.

Incident Costs

Domestic Tankers

(PERCENTAGE OF NET REVENUE)



The Corporation's foreign flag product tanker, the *Algoma Hansa* (built in 1998) is owned by a wholly owned subsidiary Algoma Tankers International Inc. ("ATI") This vessel is a sistership to the *Algosea*, which trades in our domestic product tanker fleet. The *Algoma Hansa* is part of the Navig8 Brizo8 Pool. The Navig8 Group has operations across the entire tanker shipping value chain. The Navig8 pools have more than 40 members with in excess of 135 vessels. They have offices world-wide, including Singapore, London, New York, Shanghai, Mumbai, Seoul and Dubai. The Brizo8 Pool focuses on product tankers in the 16,000 – 21,000 deadweight tonne size range. In December, 2012, the Brizo8 Pool consisted of 29 tankers. Vessel management and maintenance of the *Algoma Hansa* is outsourced to a leading international ship management company. Technical experts employed by ATI maintain oversight responsibility for the *Algoma Hansa*.

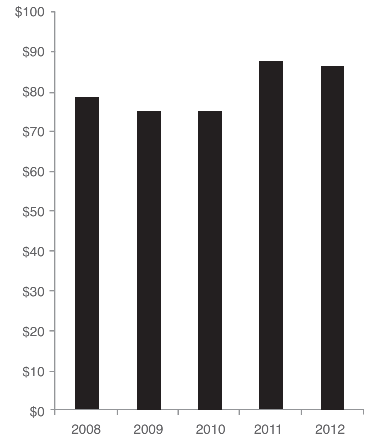
The domestic Canadian flag product tanker fleet provides safe and reliable transportation services of liquid petroleum products throughout the Great Lakes, St. Lawrence Seaway and Atlantic Canada regions. Customers include major oil refiners, leading wholesale distributors and large consumers of petroleum products who demand the highest levels of quality and service. Our goal is to achieve "Flawless Execution" in delivering oil products to our customers. To help achieve this goal, our fleet operates under an ISO 14001 compliant Environmental Management System, the International Safety Management (ISM) Code and an ISO 9001 Quality Management System.

Further enhancing the Corporation's focus on environmental performance is its voluntary membership in the industry led "Green Marine" environmental initiative. The Corporation, together with several other marine industry stakeholders from both Canada and the U.S., is an active member of Green Marine. The members of Green Marine have implemented a voluntary environmental performance measurement and reporting program for the Great Lakes-St. Lawrence Waterway. The goal of this program is to demonstrate and communicate the maritime industry's environmental performance and its commitment to improving both performance and its profile on environmental matters.

Revenue

Algoma Tankers

(IN MILLIONS)



The domestic Canadian flag product tanker fleet's technical and commercial operations are managed by the Corporation's own team of professionals located in St. Catharines, Ontario. This group is focused on Operations Excellence, which comprises customer service, continual improved quality and safety performance and environmental responsibilities. A key measure of quality performance is the cost of incidents. Over the past year incident costs as a percentage of net revenue increased from 1.9% in 2011 to 2.6% in 2012. The primary contributor to this increase was the failure of a main engine crankshaft on a domestic product tanker. This incident occurred in late November 2012 and the vessel returned to service in mid-February, 2013. The Corporation considers all incidents to be very serious. It thoroughly reviews all incidents and modifies onboard operating and management procedures and shore management procedures as indicated.

The Corporation experienced a slight decrease in gross freight revenues in its product tanker segment of 1.4% from $88,436 in 2011 to $87,164 in 2012. Operating earnings net of income tax for the Product Tankers segment dropped 32.3% from $13,695 to $9,270 due primarily to legal expenses related to the arbitration against Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. ("JZU "Shipyard") in respect of the claim of ATI for a refund of installments paid.

Ocean Shipping

The Corporation's interests in Ocean Shipping consist of joint interests in four ocean going self-unloaders and direct ownership of two wholly owned ocean going self-unloading vessels. These six self-unloaders are part of a 23 vessel ocean going self-unloader fleet, the largest of its kind. Late in 2012 the Corporation, together with its joint venture partner, sold their combined interests in a fifth jointly owned ocean going self-unloader, the *M.V. Ambassador*, to a third party. The Corporation has the right to replace this vessel within the ocean going self-unloader fleet in the future.

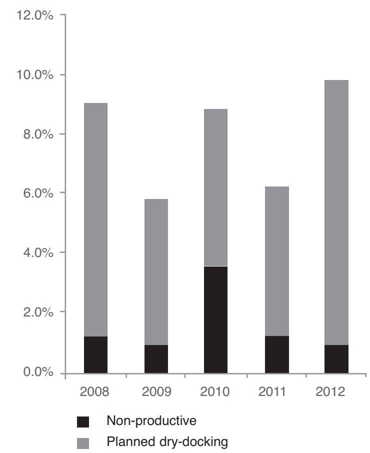
The major commodities carried by ocean going self-unloaders include coal for power generation, crushed aggregates for construction, gypsum for wallboard manufacturing, iron ore for the steel industry and salt for winter road safety. Markets are centered in North and South America; however, activities can be worldwide. Service is provided typically under long-term contracts with leading companies in each sector. As a result, this ocean going sector is considerably less volatile than the general international shipping market.

Since 2008, members of the ocean going self-unloader pool have retired several vessels in anticipation of planned vessel replacements and helped to maintain a close balance in vessel supply and demand due to the contraction of traditional markets of the fleet following the 2009/2010 recession. In 2012, the total tonnage shipped by the ocean going self-unloader pool dropped by 8.5%. This reduction is attributable to a decrease in demand in certain market segments, however, the revenue impact was partially offset by an increase in the time chartering of vessels from the ocean going fleet to serve specific market requirements. Time chartering activity is measured in terms of days of operation, as opposed to tonnes carried, as is typically the case in the majority of the ocean going fleet's activity. Time chartering activity nearly doubled in 2012 from the annual equivalent of 2.1 vessels in 2011 to 3.7 vessels in 2012.

Non Productive Days

Ocean Shipping

(PERCENTAGE OF AVAILABLE DAYS)



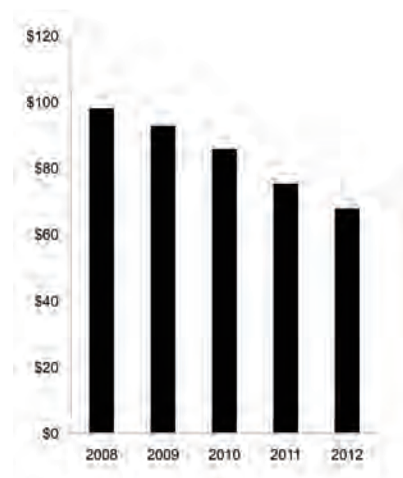
Aggregate product transportation, consisting primarily of crushed stone, limestone and granite products, became the largest market segment served by the ocean going fleet in 2012. Tonnages increased by 14.8% over 2011. Coal transportation for power generation fell 14.6% due to continuing lower demand for electricity and increased use of natural gas by power generators. Notwithstanding this reduction, the movement of coal for power generation continues to be an important market segment for the fleet. The third largest market segment served by the fleet is gypsum. Total gypsum transportation fell by 3.6% in 2012. Positive news in 2012 was that U.S. housing starts continued to improve, recording a year over year gain for the year ending November 30, 2012 of 28.1%. Although this is a significant improvement and represents the highest level of activity in this sector since 2008, activity is still well below the peaks experienced prior to the 2009/2010 recession. Shipments of iron ore decreased by 5.1% in 2012 as a steel producer traditionally served by the fleet ceased operations.

In late 2012 the first of five new replacement vessels joined the ocean going fleet. Four additional new vessels are expected to join in 2013. All these vessels are owned by other owners that participate in the ocean going fleet.

Revenue

Ocean Shipping

(IN MILLIONS)



Ocean Shipping revenues fell from $75,089 in 2011 to $67,668 in 2012. The decrease is primarily attributable to reduced vessel revenue generating days due to the sale of the *M.V. Ambassador* and increased planned dry-dockings. With the reduction in 2012 revenues, operating earnings net of income tax, decreased from $15,476 in 2011 to $14,999 in 2012. Total non-productive operating days (excluding dry-docking days) improved falling from 1.19% in 2011 to 0.97% in 2012.

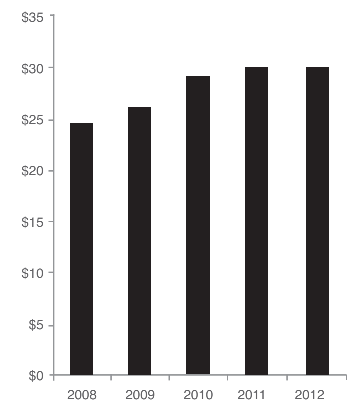
Vessel management and maintenance is outsourced to leading international ship management companies. Technical experts employed by the Corporation's subsidiaries and its partners maintain oversight responsibilities for the ocean shipping fleet. The Corporation and its ship managers continue to focus on productivity, operational excellence, safety, security and environmental protection.

Real Estate

Revenue

Real Estate

(IN MILLIONS)



Algoma Central Properties Inc. ("ACP") is the real estate segment of the Corporation. This segment owns and manages properties in Sault Ste. Marie, St. Catharines, and Waterloo, Ontario.

In Sault Ste. Marie, where approximately 63% of ACP's holdings are located, ACP owns and manages Station Mall, the largest regional mall, Station '49', a residential apartment building, and the Station Tower and 289 Bay Street office buildings. ACP also owns, but does not manage, the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre.

In St. Catharines, ACP owns and manages three office buildings – 63 Church Street, 20 Corporate Park Drive, and 25 Corporate Park Drive – as well as two commercial plazas, Ridley Square and Huntington Square, and a light industrial plaza known as Martindale Business Centre. In addition, ACP manages an office building in St. Catharines jointly owned with the lead tenant. ACP also owns and manages three office buildings in Waterloo, known collectively as the Waterloo Technology Campus.

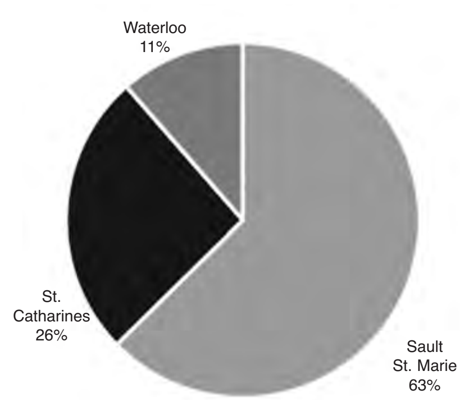
In 2012, ACP was successful in closing a high volume of lease transactions and much of the leasing activity will lead to future earnings growth in properties like Station Mall and 20 Corporate Park. Revenue remained stable in 2012 at $29,992 compared to 2011 revenue of $29,993. ACP's operating earnings net of income tax decreased by 8.0% to $3,114 in 2012 from $3,383 in 2011.

Sault Ste. Marie, Ontario

Geographic Diversification

Real Estate

(BY SQUARE FOOT)



Station Mall revenue in 2012 remained consistent with previous years. Zellers was replaced by Wal-Mart in the 4th quarter and the increased mall traffic should help attract new tenants to the mall.

The Delta Sault Ste. Marie Waterfront Hotel and Conference Centre continues to be the premier full service hotel in the region and out preformed all other hotels in all measurable categories. Unfortunately, the hotel industry continued to be challenged in 2012.

Other Sault Ste. Marie properties were unchanged from 2012.

St. Catharines, Ontario

The St Catharines office market continues to underperform and is not expected to improve in the coming year. The downtown office building, 63 Church Street, which also houses the Corporation's executive offices, saw a marginal increase in occupancy. During 2013 we will move the balance of our St. Catharines operations into currently vacant space in this building. The St. Catharines suburban office space office market remains soft and we experienced no appreciable change in the occupancy at the Henley Corporate Park properties with 20 Corporate Park and 75 Corporate Park, our joint venture building, both at 100% occupancy. 25 Corporate Park is currently at 63% occupied. We are hopeful that our marketing efforts will secure new tenants for this property in the coming year.

At Ridley Square, retail leasing activity was stronger in 2012 than in 2011 with an occupancy increase of 8% during the year to 100% occupied. Huntington Square saw little change throughout the year with no significant change in occupancy or operating income. Martindale Business Centre occupancy decreased by approximately 5%.

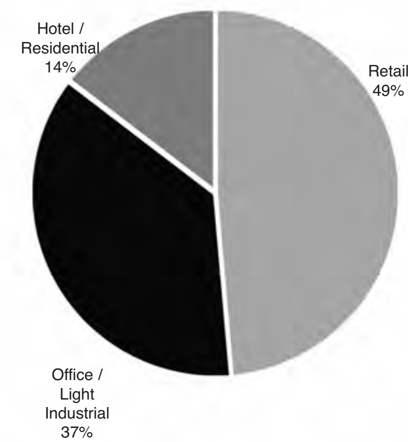
Waterloo, Ontario

The Waterloo Technology Campus is 80% occupied as a result of recent vacancies. Prospects for the Waterloo market are currently uncertain due to the highly publicized challenges facing Blackberry Inc.

Asset Mix

Real Estate

(BY SQUARE FOOT)



Labour Update

The majority of our shipboard employees, along with hourly employees of ASR and the Delta Hotel in Sault Ste. Marie are unionized. Details of the status of union agreement are provided below.

Domestic Dry-Bulk

As a result of the acquisition of ULG's domestic dry-bulk fleet, approximately 500 employees of Upper Lakes Shipping became employees of Algoma Great Lakes Shipping Inc. ("AGLSI"), a 100% subsidiary of the Corporation, effective April 14, 2011 and are employed in the operation of the former ULG vessels. AGLSI shipboard employees are covered by various collective agreements.

The AGLSI captains and chief engineers are represented by the Canadian Masters and Chiefs Association. Their collective agreement was renewed in 2012 and expires on February 29, 2015.

Navigation and engineering officers of AGLSI are represented by separate bargaining units of the Canadian Merchant Service Guild. The current agreements expired on May 31, 2012 and the collective bargaining process is underway with both of these bargaining units.

The AGLSI unlicensed employees are represented by the Canadian Maritime Union, a unit of the Canadian Autoworkers Union. The collective bargaining agreement was renewed in 2012 and will expire on March 31, 2015.

The Corporation's other domestic dry-bulk shipboard employees, who were unaffected by the acquisition, are also covered by various collective bargaining agreements.

The Captains and Chiefs Association represents the captains and chief engineers of this fleet. A first collective agreement was negotiated between the parties and was ratified in December 2011. This agreement expires on February 28, 2013. On January 18, 2013 a group of captains and chief engineers made application to the Canada Industrial Relations Board for a Revocation of Bargaining Rights (Decertification). It is expected to take several months before the outcome of this application is known.

The collective agreements of the navigation and engineering officers of AGLSI expired on May 31, 2011 and negotiations were undertaken in 2012 with collective agreements being renewed for both groups. The new agreements for both groups will expire on May 31, 2016. The Seafarers' International Union ("SIU") represents the unlicensed employees of this fleet. The current labour expires on May 31, 2016.

Product Tankers

With the exception of our captains and chief engineers, shipboard employees on the domestic product tanker vessels are unionized.

The navigation and engineering officers are represented by separate bargaining units of the CMSG and the SIU represents unlicensed workers onboard domestic product tanker vessels.

The collective bargaining agreements for all three groups will expire on July 31, 2013.

Algoma Ship Repair

The collective agreement between ASR and its hourly paid workers, who are represented by the United Steelworkers, expired on May 31, 2012. The collective agreement was successfully renewed for a three year term, expiring on May 31, 2015.

Algoma Central Properties Inc.

The Delta Sault Ste. Marie Waterfront Hotel & Conference Centre's hourly paid workers are represented by the Retail, Wholesale and Department Store Union. The collective agreement with this group was renewed in 2012 and will expire on July 5, 2015.

Responsibility for Financial Statements

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

The financial statements were prepared by management in accordance with International Financial Reporting Standards and necessarily include some amounts that are based on estimates and 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, FCA
President and Chief Executive Officer
February 22, 2013

Peter D. Winkley, CA
Vice President, Finance and Chief Financial Officer
February 22, 2013

Independent Auditor's Report

To the Shareholders of Algoma Central Corporation

We have audited the accompanying consolidated financial statements of Algoma Central Corporation which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of earnings, comprehensive earnings, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Algoma Central Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 22, 2013

Consolidated Statements of Earnings

Years ended December 31, 2012 and 2011
(In thousands of dollars, except per share figures)

	Notes	2012	2011
REVENUE		$ 560,377	$ 582,690
EXPENSES			
Operations		407,476	416,937
General and administrative		30,289	29,636
		437,765	446,573
EARNINGS BEFORE UNDERNOTED ITEMS		122,612	136,117
Depreciation of property, plant and equipment and investment properties	14, 15	(46,117)	(47,148)
Impairment reversal of property, plant and equipment	14	750	3,114
Financial expense	8	(11,640)	(8,568)
Gain on revaluation of asset held for sale	6	-	1,087
Net loss on translation of foreign-denominated assets and liabilities		(3,028)	(2,073)
EARNINGS BEFORE INCOME TAXES		62,577	82,529
INCOME TAX PROVISION	9	18,758	13,685
NET EARNINGS		$ 43,819	$ 68,844
BASIC EARNINGS PER SHARE	20	$ 1.13	$ 1.77
DILUTED EARNINGS PER SHARE	20	$ 1.10	$ 1.68

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings

Years ended December 31, 2012 and 2011
(In thousands of dollars)

	2012	2011
NET EARNINGS	$ 43,819	$ 68,844
OTHER COMPREHENSIVE LOSS		
Unrealized (loss) gain on translation of financial statements of foreign self-sustaining operations	(4,219)	4,552
Actuarial losses on employee future benefits, net of income tax recovery of $1,618 and $5,279	(1,314)	(13,407)
Minimum funding liability, net of income taxes of $137.	-	349
Unrealized (loss) gain on hedging instruments, net of income tax recovery of $40 and expense of $361	(148)	876
Effect of corporate tax rate increase on actuarial losses on employee future benefits	568	-
	(5,113)	(7,630)
COMPREHENSIVE EARNINGS	$ 38,706	$ 61,214

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

Years ended December 31, 2012 and 2011
(In thousands of dollars)

	Notes	December 31 2012	2011
ASSETS			
CURRENT			
Cash and cash equivalents	10	$ **128,923**	$ 132,316
Accounts receivable	11	**79,732**	77,469
Materials and supplies		**13,369**	13,016
Prepaid expenses		**4,881**	3,666
Income taxes recoverable		**14,332**	21,255
Recoverable vessel deposits	12	**33,943**	-
		275,180	247,722
RECOVERABLE VESSEL DEPOSITS	12	**-**	34,697
ASSETS HELD FOR SALE	13	**-**	5,305
PROPERTY, PLANT AND EQUIPMENT	14	**529,127**	506,399
GOODWILL	6	**7,910**	7,910
INVESTMENT PROPERTY	15	**71,497**	72,364
		$ **883,714**	$ 874,397
LIABILITIES			
CURRENT			
Accounts payable and accrued charges	16	$ **58,648**	$ 77,342
Dividends payable		**1,007**	906
Current portion of long-term debt	18	**4,773**	4,754
Derivative liabilities		**3,212**	2,489
		67,640	85,491
DEFERRED INCOME TAXES	9	**56,018**	50,835
EMPLOYEE FUTURE BENEFITS	17	**40,115**	42,123
LONG-TERM DEBT	18, 19	**220,953**	227,228
COMMITMENTS AND CONTINGENCIES	25, 26	**-**	-
		317,086	320,186
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	20	**8,319**	8,319
CONTRIBUTED SURPLUS		**11,917**	11,917
CONVERTIBLE DEBENTURES	19	**4,632**	4,632
ACCUMULATED OTHER COMPREHENSIVE LOSS	21, 22	**(10,602)**	(6,235)
RETAINED EARNINGS		**484,722**	450,087
		498,988	468,720
		$ **883,714**	$ 874,397

APPROVED BY THE BOARD

Director Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2012 and 2011
(In thousands of dollars except per share figures)

	Share capital	Contributed surplus/ Convertible debentures	Accumulated Other Comprehensive Losses: (Note 21) Cash flow hedging reserve	(Note 22) Foreign currency translation reserve	Retained earnings	Total equity
BALANCE AT JANUARY 1, 2011	$ 8,319	$ 11,917	$ (1,294)	$ (10,369)	$ 401,215	$ 409,788
Net earnings	-	-	-	-	68,844	68,844
Other comprehensive earnings (loss)	-	-	876	4,552	(13,058)	(7,630)
Dividends declared	-	-	-	-	(6,914)	(6,914)
Convertible debentures	-	4,632	-	-	-	4,632
BALANCE AT DECEMBER 31, 2011	$ 8,319	$ 16,549	$ (418)	$ (5,817)	$ 450,087	$ 468,720
Net earnings	-	-	-	-	43,819	43,819
Other comprehensive loss	-	-	(148)	(4,219)	(746)	(5,113)
Dividends declared	-	-	-	-	(8,438)	(8,438)
BALANCE AT DECEMBER 31, 2012	$ 8,319	$ 16,549	$ (566)	$ (10,036)	$ 484,722	$ 498,988

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011
(In thousands of dollars)

	Notes	2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Net earnings		$ 43,819	$ 68,844
Items not affecting cash			
Depreciation of property, plant and equipment and investment properties		46,117	47,148
Net loss on translation of foreign-denominated assets and liabilities		3,028	2,073
Impairment reversal of property, plant and equipment		(750)	(3,114)
Income tax provision		18,758	13,685
Financial expense		11,640	8,568
Employee future benefits expense		3,076	5,958
Other		(894)	(2,941)
		124,794	140,221
Net change in non-cash operating working capital	23	(14,855)	(17,298)
Cash generated from operations		109,939	122,923
Interest paid		(13,944)	(7,014)
Income taxes paid		(3,705)	(5,893)
Employee future benefits paid		(8,073)	(6,172)
Net cash generated from operating activities		84,217	103,844
INVESTING			
Additions to property, plant and equipment		(76,038)	(33,366)
Additions to investment properties		(3,694)	(5,281)
Business acquisition	6	-	(86,752)
Proceeds on sale of property, plant and equipment		8,440	3,322
Net cash used in investing activities		(71,292)	(122,077)
FINANCING			
Proceeds from issue of long-term debt		-	208,497
Net repayment of long-term debt		(6,000)	(94,786)
Dividends paid		(8,438)	(6,823)
Net cash (used in) generated from financing activities		(14,438)	106,888
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1,513)	88,655
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCIES		(1,880)	859
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		132,316	42,802
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 128,923	$ 132,316

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2012 and 2011
(In thousands of dollars)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation (the “Corporation”) is incorporated in Canada and is listed on the Toronto Stock Exchange. The address of the Corporation’s registered office is 63 Church St, Suite 600, St. Catharine’s, Ontario, Canada. The consolidated financial statements of the Corporation for the years ended December 31, 2012 and 2011 comprise the Corporation, its subsidiaries and the Corporation’s interest in associated and jointly controlled entities.

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

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

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Corporation’s 26 – vessel domestic dry-bulk fleet. The dry-bulk vessels carry cargoes of raw materials such as coal, grain, iron ore, salt and aggregates and operate throughout the Great Lakes – St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. This segment also includes a diversified ship repair and steel fabricating facility operating in the Great Lakes and St. Lawrence regions of Canada.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of seven Canadian flag tanker vessels operating on the Great Lakes, the St. Lawrence Seaway and the east coast of North America. It also includes the ownership of one product tanker through a wholly owned foreign subsidiary engaged in international trades.

The Ocean Shipping marine transportation segment includes ownership of two ocean-going self-unloading vessels and a 50% interest through a joint venture in an ocean-going fleet of four self-unloaders. The ocean vessels are engaged in the carriage of dry-bulk commodities in worldwide ocean trades.

The Corporation also owns and manages commercial real estate in Sault Ste. Marie, Waterloo and St. Catharine’s, Ontario.

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

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

2. STATEMENT OF COMPLIANCE

We prepared our Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our Consolidated Financial Statements.

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

The financial statements were approved by the Board of Directors and authorized for issue on February 22, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The following are the principal accounting policies of the Corporation:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and entities controlled by the Corporation (its subsidiaries). Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

Earnings and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of earnings from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued by the Corporation in exchange for control of the acquiree.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value. The Corporation measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Corporation and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

The Corporation reports its interests in jointly controlled entities using proportionate consolidation. The Corporation's share of the assets, liabilities, earnings and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Corporation's interest in a jointly controlled entity is accounted for in accordance with the Corporation's accounting policy for goodwill arising in a business combination.

Cash and cash equivalents

Cash and cash equivalents comprise cash in the bank less outstanding cheques and short-term deposits with maturities of less than 90 days that are readily convertible into a known amount of cash.

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. The net realizable value of fuel on board vessels is the estimated revenue generated from the voyage less the cost associated with the voyage.

Property, plant and equipment

Vessels

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

Depreciation

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

Dry-docking

From time to time, vessels are required to be dry-docked for inspection and re-certification, at which time replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating, are generally performed. These dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking, which may vary from 2.5 to 5 years. The residual value of such components is estimated at nil. The useful lives of the dry-docking costs are reviewed at least annually based on market conditions, regulatory requirements and the Corporation's business plans.

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

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

The useful life of the dry-docking component depends on the regulatory dry-docking schedule for the vessel.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured at cost less accumulated depreciation and accumulated impairments. Cost includes transaction costs and any directly attributable expenses. Real estate assets, including site improvements, are amortized on a straight-line basis over their lives, which the Corporation initially estimates to be 35 years.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the period in which the property is derecognized.

Impairment of long-lived assets

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

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

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

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

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

Goodwill

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

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

Operating segments

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

Revenue recognition

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

Revenue is only recognized when there is persuasive evidence that an arrangement exists, the amount is fixed or determinable and collection is probable.

Foreign currency

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

Transactions in currencies other than the Canadian dollar are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

The assets and liabilities of the Corporation's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Earnings and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive earnings and accumulated in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that take a substantial period of time to prepare for their intended use are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in earnings in the period in which they are incurred.

Provisions

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

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

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

Employee future benefits

The Corporation sponsors defined benefit pension plans, defined contribution pension plans and other post-employment benefits including life insurance and health care. The employee future benefit plans are further described in Note 17.

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

The cost of defined benefit and defined contribution pensions and other post-retirement benefits that relate to employees’ current service is charged to earnings annually. The cost for the defined benefit plans is computed on an actuarial basis using the projected unit credit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For 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 employee future benefit obligation is set with reference to market interest rates on high-quality debt instruments.

Actuarial gains and losses arising from the employee future benefit plans are recognized immediately in other comprehensive earnings. Past service costs are recognized immediately to the extent that the benefits are already vested and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

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

Income taxes

Income tax expense represents the sum of the tax currently payable, deferred tax and refundable tax.

Current tax

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

Deferred tax

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying value of its assets and liabilities.

Financial instruments

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

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 either as fair value through profit or loss, available-for-sale, held-to-maturity, or loans and receivables and, financial liabilities are classified as either fair value through profit or loss, 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 whose fair value cannot be reliably estimated and other liabilities.

The Corporation's cash and cash equivalents and accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, dividends payable and long-term debt are classified as other financial liabilities, which are also measured at amortized cost.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables, including cash and cash equivalents and accounts receivable, are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate method.

Impairment of financial assets

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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying value is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

The impairment loss on receivables is based on a review of all outstanding amounts at period end. The Corporation has established percentages for the allowance for doubtful accounts which are based on historical collection trends for each payer type and age of the receivables. Accounts that are considered to be uncollectible are reserved for in the allowance until they are written off or collected.

For financial assets measured at amortized cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through earnings to the extent that the carrying value of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Other financial liabilities

Other financial liabilities, including accounts payable and accrued liabilities, dividends payable and long-term debt, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Transaction costs

Transaction costs related to financial assets and liabilities measured at fair value through profit and loss are recorded directly to net earnings and are included in financial expense. Transaction costs related to 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.

Derivative financial instruments

The Corporation enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 27.

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

Embedded derivatives

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

Hedges

In keeping with its risk management strategy, the Corporation has elected to apply hedge accounting to its interest rate swaps and designate them as cash flow hedges. At inception of the hedge relationship, the Corporation documents the relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Furthermore, at inception of the hedge and on an ongoing basis, the Corporation documents whether the hedging instrument is highly effective in offsetting the changes in cash flows of the hedged item attributable to the hedged risk. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in other comprehensive earnings to the extent the hedging relationship is effective.

The gain or loss relating to the ineffective portion is recognized immediately in net earnings and is included in the financial expense line item.

Comprehensive earnings

Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in foreign operations with a functional currency other than Canadian, changes in the fair market value of derivative instruments designated as cash flow hedges and the actuarial gains or losses on employee benefits, all net of income taxes. The components of comprehensive earnings or loss are disclosed in the Consolidated Statements of Comprehensive Earnings. Accumulated Other Comprehensive Loss is included on the Consolidated Statements of Financial Position.

Earnings per share

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

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

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Recoverability of assets and useful lives

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

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

The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the property, plant and equipment is complex and requires the

Corporation to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile. The carrying values of the Corporation's property, plant and equipment may not represent their fair market value at any point in time as market prices of second-hand vessels to a certain degree tend to fluctuate with changes in charter rates and the cost of new vessels; however, if the estimated future cash flow or related assumptions in the future experience change, an impairment of property, plant and equipment may be indicated.

Depreciation on long-lived assets is based on cost less estimated residual value. Residual value for vessels is estimated as the lightweight tonnage of each vessel multiplied by the scrap value per ton. The useful life and residual value of the vessels are reviewed at least each financial year end.

The Corporation expects a favourable ruling relating to the recoverable vessel deposits. See Note 12 for further information.

Goodwill is tested for impairment on an annual basis.

Investment properties are amortized on a straight-line basis over their useful lives, which the Corporation estimates to be 35 years.

Provisions

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

Taxation

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

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

Employee Future Benefits

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

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

A one percent increase in the discount rate assumption would decrease the net periodic service costs component by $548 (2011- $612). A one percent decrease in the discount rate assumption would increase the net periodic service costs component by $702 (2011-$781).

A one percent increase in the discount rate assumption for the employee future benefit obligation would reduce the obligation by $17,388 (2011 - $15,191). A one percent decrease in the discount rate assumption for the employee future benefit obligation would increase the obligation by $21,512 (2011- $18,498).

5. FUTURE ACCOUNTING STANDARDS

Employee Future Benefits

Effective January 1, 2013, IAS 19, “Employee Benefits”, eliminates the use of the corridor approach and requires actuarial gains and losses to be recognized immediately in other comprehensive income (OCI). The effect of the change is the plan net surplus/deficit position will be reflected in the Corporation’s Consolidated Balance Sheets. Amounts recorded into OCI would not be reclassified to the Consolidated Statements of Earnings. The Corporation elected on conversion to IFRS on January 1, 2010 to recognize in opening OCI the cumulative net deficit previously unrecognized on the balance sheet. Therefore, there is no effect on the balance sheet as of January 1, 2013.

In addition, the discount rate to be used for recognizing the net interest income/expense, which will be included in financial expense, is based on the rate at which the liabilities are discounted and not the expected rate of return on the assets. This will result in higher expense in the Consolidated Statements of Earnings in line with the funded status of the plan. The OCI balances will also be changing directly due to the changes in the actuarial gains and losses.

As a result of the changes for the discount rate to be used for recognizing the net interest income/expense and any unvested benefits, the net earnings of the Corporation will decrease by approximately $1,500 for the year ending December 31, 2012 resulting from lower expected returns due to the rate reduction and unvested benefits of $720 will flow through to OCI.

Consolidated Financial Statements

Effective January 1, 2013, IFRS 10, “Consolidated Financial Statements” (“IFRS 10”) replaced the guidance on control and consolidation in IAS 27, “Consolidated and Separate Financial Statements” (“IAS 27”) that addresses consolidation and supersedes SIC-12 in its entirety. This standard introduces a single, principle-based, control model for consolidation, irrespective of whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities (SPE). Control is based on an investor’s current ability to use its power over the key activities of a subsidiary or SPE to affect its exposure or return generated by the subsidiary or SPE. An amendment to the standard was subsequently issued which provided additional transition guidance.

The Corporation has determined there is no impact from this new standard on its consolidated financial statements.

Joint Arrangements

Effective January 1, 2013, IFRS 11, "Joint Arrangements" ("IFRS 11") supersedes IAS 31, "Interests in Joint Ventures" and Standing Interpretations Committee ("SIC") -13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". IFRS 11 requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement (a "joint venture") or to its share of the assets and liabilities of the joint arrangement (a "joint operation"). Joint ventures must be accounted for using the equity method, whereas joint operations must be accounted for by recognizing the venturer's right to assets and obligations for liabilities (i.e., proportionate consolidation). The standard is required to be applied retrospectively to the prior periods presented.

The Corporation has certain interests in joint arrangements which will be accounted for on the equity basis under the new standard. There is no impact on net earnings for the change in this standard; however, certain revenues and expenses which were previously proportionately consolidated will be presented as share of profits of interests in joint arrangements. Based on 2012, revenues will decrease by $32,506,expenses will decrease by $24,488 and the Corporations earnings from the joint arrangements remain unchanged at $8,018. The effect on the balance sheet is assets will decrease by $21,144, consisting primarily of property, plant and equipment, and liabilities will decrease by $7,074. Under the new standard, the net investment in the joint arrangements of $14,070 will be presented as a separate line on the consolidated balance sheets.

Disclosure of Interests in Other Entities

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") broadens the definition of interests and requires enhanced disclosures on interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Fair Value Measurement

IFRS 13, "Fair Value Measurement", provides a definition of fair value, establishes a single framework for measuring fair value, and provides disclosure requirements for fair value used across all IFRS standards.

Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments require the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual reporting periods beginning on or after July 1, 2012.

The Corporation has determined there is no impact with the changes in the above three standards on its consolidated financial statements.

Financial Instruments

The IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace International Accounting Standard ("IAS") 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

The Corporation is currently evaluating the impact of this new pronouncement on its consolidated financial statements.

6. BUSINESS COMBINATION

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

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

The Corporation recognized a gain before income taxes of $1,087 as a result of measuring at fair value its interest in an asset held for sale and owned by SMT before the business combination. The gain has been shown as a separate line in the Corporation's consolidated statement of earnings. In addition, the Corporation recognized a gain before income taxes of $340 for unrealized foreign exchange balances which has been included in the net (loss) gain on translation of foreign denominated assets and liabilities in the Corporation's consolidated statement of earnings. The fair value of the Corporation's previously held equity interest in SMT at the acquisition date (net of intercompany balances) was $19,504.

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

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

The costs of the acquisition and restructuring of $2,651 relating to severance costs and professional fees were recorded in general and administrative expenses.

The revenue and net earnings of the acquiree since the acquisition date included in the consolidated statement of earnings for 2011 were $152,025 and $32,750 respectively.

The revenue and net earnings for the Corporation and the acquiree combined for 2011 as though the acquisition date for the business combination that occurred during the year had been as of January 1, 2011 would have been $595,690 and $53,077 respectively.

7. INTERESTS IN JOINT VENTURES

The Corporation, through its wholly owned subsidiary Algoma Shipping Ltd. and through a joint venture interest in Marbulk Canada Inc., owns and operates ocean-going vessels. Both Algoma Shipping Ltd. 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.

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

Prior to November 15, 2011 the Corporation participated in Hanseatic Tankers, a foreign joint venture, which has been dissolved. The Corporation as of November 15, 2011, through its wholly owned subsidiary Algoma Tankers International Inc., participates in the Navig8 Chemical Group's Brizo8 Pool. This new pool is not accounted for as a joint venture.

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

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

	December 31 2012	December 31 2011
Current assets	**$ 16,923**	$ 15,214
Non-current assets	**$ 11,962**	$ 15,244
Current liabilities	**$ 10,486**	$ 6,740
Non-current liabilities	**$ 3,878**	$ 3,546

	Twelve Months Ended December 31 **2012**	2011
Revenue	**$ 69,746**	$ 90,580
Expenses	**52,823**	105,633
Operating earnings (loss)	**$ 16,923**	$ (15,053)

Expenses include $40,070 (2011-$91,980) directly from the joint ventures and $12,753 (2011- $13,653) incurred directly by the Corporation on behalf of the joint ventures.

8. FINANCIAL EXPENSE

The components of financial expense are as follows:

	2012	2011
Interest expense on borrowings	$ 14,734	$ 12,703
Interest income on cash and cash equivalents	(407)	(162)
Amortization of financing costs	1,246	2,200
Interest capitalized on vessels under construction	(4,807)	(4,806)
Net interest expense	10,766	9,935
Mark to market for derivatives that are not eligible for hedge accounting	874	(1,367)
	$ 11,640	$ 8,568

9. INCOME TAXES

	2012	2011
Current tax		
Current tax expense in respect of the current year	$ 11,349	$ 2,583
Deferred tax		
Deferred tax expense recognized in the current year	4,154	11,649
Adjustments to deferred tax relating to changes in tax rates	3,255	(547)
	7,409	11,102
	$ 18,758	$ 13,685

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

	2012	2011
Combined federal and provincial statutory income tax rate	26.5%	28.3%
Earnings before income taxes	$ 62,577	$ 82,529
Expected income tax provision	$ 16,583	$ 23,314
Increase (decrease) resulting from:		
Effect of items that are not taxable	(148)	(1,395)
Foreign tax rates different from statutory rate	(3,018)	(5,328)
Effect of corporate tax rate changes	3,255	(2,346)
Adjustment of prior years taxes on filing	1,561	-
Net operating loss carried back to year with higher statutory rate	-	(722)
Other	525	162
	$ 18,758	$ 13,685

The decrease in the combined federal and provincial statutory income tax rate was due to a reduction effective in 2012 in the Canadian federal tax rate.

Deferred income tax expense (recovery) recognized in other comprehensive loss is as follows:

	2012	2011
Unrealized gain on hedging instruments	$ (40)	$ 361
Actuarial losses on employee future benefits	(2,186)	(5,279)
Minimum funding liability	-	136
	$ (2,226)	$ (4,782)

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

December 31, 2012	Opening balance	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax assets/(liabilities):				
Partnership profits	$ (23,528)	$ 1,872	$ -	$ (21,656)
Property, plant and equipment	(34,924)	(5,139)	-	(40,063)
Investment property	(3,394)	76	-	(3,318)
Employee future benefits	9,117	(924)	2,186	10,379
Foreign exchange differences	(4,504)	1,761	-	(2,743)
Tax losses	3,784	2,304	-	6,088
Convertible debentures	(1,555)	181	-	(1,374)
Tax provisions and other	4,169	(7,540)	40	(3,331)
	$ (50,835)	$ (7,409)	$ 2,226	$ (56,018)

December 31, 2011	Opening balance	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax assets/(liabilities):				
Partnerships profits	$ (16,026)	$ (7,502)	$ -	$ (23,528)
Property, plant and equipment	(30,901)	(4,023)	-	(34,924)
Investment property	(2,562)	(832)	-	(3,394)
Employee future benefits	3,818	156	5,143	9,117
Foereign exchange differences	(3,343)	(1,161)	-	(4,504)
Convertible debentures	-	-	(1,555)	(1,555)
Tax losses	3,784	-	-	3,784
Tax provisions and other	2,270	2,260	(361)	4,169
	$ (42,960)	$ (11,102)	$ 3,227	$ (50,835)

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash balances only. There were no investments in short term deposits with maturities of less than 90 days.

11. ACCOUNTS RECEIVABLE

	2012	2011
Due from customers	$ 70,717	$ 59,177
Accrued revenue	3,805	2,815
Commodity taxes	527	4,683
Other	4,683	10,794
	$ 79,732	$ 77,469

12. RECOVERABLE VESSEL DEPOSITS

In September 2007, the Corporation entered into contracts to build three product tankers at the Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. in China. Each contract contained provisions that allowed for cancellation in the event of excessive delivery delays, which delays have occurred. Because of the excessive non-permissible delays, in 2010 the Corporation issued formal notices of rescission of the three shipbuilding contracts.

The Corporation made instalments to the shipyard totalling U.S. $35,370. During 2012, the Corporation was a party in an arbitration tribunal with the shipyard related to the refund of these deposits and is now awaiting the arbitrators' decision. In the event the tribunal rules in favour of the Corporation, the Corporation does not believe there is a credit risk associated with refund of the payments made to the shipyard. The payments are backed by refund guarantees issued by major Chinese banks should the shipyard fail to refund the amounts.

Under the rules of arbitration, the tribunal may decide in favour of the Corporation for the total amount of the installments or in favour of the shipyard. The tribunal cannot decide on a partial settlement.

The ultimate success of the Corporation from the arbitration proceeding is uncertain; however, the Corporation expects a favourable ruling in 2013 and therefore has shown the deposits as a current asset as at December 31, 2012.

13. ASSETS HELD FOR SALE

At December 31, 2011 the Corporation had certain vessels which were determined to be no longer required and in 2012, the sales of these assets were completed. The proceeds on disposal approximated the carrying value.

14. PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment are as follows:

Cost	Domestic Dry-Bulk	Product Tankers	Ocean Shipping	Total
Balance at December 31, 2010	$ 553,093	$ 295,761	$ 129,859	$ 978,713
Additions	35,936	3	1,585	37,524
Business acquisition	81,597	-	-	81,597
Effect of foreign currency exchange differences	1,179	303	2,940	4,422
Disposals	(47,836)	-	-	(47,836)
Reclassification between segments	31,287	(31,287)	-	-
Reclassification to deposits on vessel construction	-	(34,697)	-	(34,697)
Reclassification to assets held for sale	(1,805)	-	-	(1,805)
Business combination revaluation	(8,886)	-	-	(8,886)
Balance at December 31, 2011	644,565	230,083	134,384	1,009,032
Additions	63,184	704	4,146	68,034
Disposals	-	-	(12,198)	(12,198)
Effect of foreign currency exchange differences	(1,165)	(325)	(2,107)	(3,597)
Balance December 31, 2012	$ 706,584	$ 230,462	$ 124,225	$ 1,061,271

Accumulated depreciation	Domestic Dry-Bulk	Product Tankers	Ocean Shipping	Total
Balance at December 31, 2010	$ 380,763	$ 77,920	$ 55,553	$ 514,236
Impairments	1,500	(4,614)	-	(3,114)
Depreciation expense	26,428	9,201	7,268	42,897
Disposals	(44,374)	-	-	(44,374)
Effect of foreign currency exchange differences	185	156	1,532	1,873
Business combination revaluation	(8,886)	-	-	(8,886)
Balance at December 31, 2011	355,616	82,663	64,353	502,632
Depreciation expense	25,768	9,192	6,595	41,555
Disposals	-	-	(10,646)	(10,646)
Effect of foreign currency exchange differences	(193)	(176)	(1,028)	(1,397)
Balance December 31, 2012	$ 381,191	$ 91,679	$ 59,274	$ 532,144

Net Book Value	Domestic Dry-Bulk	Product Tankers	Ocean Shipping	Total
December 31, 2011				
Cost	$ 644,565	$ 230,083	$ 134,384	$ 1,009,032
Accumulated depreciation	355,616	82,663	64,353	502,632
	$ 288,949	$ 147,420	$ 70,031	$ 506,400
December 31, 2012				
Cost	$ 706,584	$ 230,462	$ 124,225	$ 1,061,271
Accumulated depreciation	381,191	91,679	59,274	532,144
	$ 325,393	$ 138,783	$ 64,951	$ 529,127

The Corporation has converted two product tanker construction contracts into an order for two *Equinox Class* vessels having approximately equal value. The Corporation made initial instalments on these two construction contracts of U.S. $32,640, which were previously included with the Product Tankers segment property, plant and equipment. The Corporation satisfied a portion of the instalment obligations on the *Equinox Class* vessels by applying deposits made on the converted product tankers contracts to these vessels, subject to certain conditions and, accordingly, these deposits were reclassified in 2011 to the domestic dry-bulk segment.

Net book value at December 31, 2012 includes capitalized dry-docking costs of $35,634 (2011 – $28,275) and accumulated depreciation of $ 25,289 (2011 – $21,722).

Depreciable assets at December 31, 2012 includes progress payments on new *Equinox Class* vessels of $121,810 (December 31, 2011 - $51,189). Depreciation on these assets will commence when they are ready for use, which is expected to occur at various dates commencing in mid-2013. In addition, the Corporation has capitalized $4,807 in 2012 (2011- $2,925) of interest related to these vessels. In 2011, the Corporation capitalized an additional $1,881 of interest related to progress payments on another vessel which commenced operations in 2011.

Impairment losses and reversals

In 2007, the Corporation entered into contracts for five new product tankers with shipyards located in China. Delivery of all the vessels was originally expected to occur during late 2010 and 2011, at which time these new vessels were expected to join the *Algoma Hansa* in ocean service.

In the period since the Corporation acquired the *Algoma Hansa* and entered into the product tanker construction contracts, the international product tanker market sustained a dramatic and prolonged downturn. Under IFRS, the Corporation is required to review the carrying value of its long-lived assets by comparing the carrying value of each asset to its recoverable value, which is the higher of its fair value less costs to sell or its value-in-use, as measured by its discounted expected future cash flows. As a result of the review, the Corporation recorded asset impairment charges related to these product tankers totalling $31,493 to December 31, 2010.

During 2011, the Corporation negotiated the conversion of two of these tanker contracts into contracts for new *Equinox Class* vessels. The new agreement with the shipyard allows the Corporation to utilize the instalments paid on the tankers to fund instalments due on the sixth *Equinox Class* vessel construction contract net of a Conversion Fee. As a result of this change, the accumulated impairment provision recorded in prior periods has been re-measured, resulting in a reduction of the previous recognized impairments of $5,066, which was recorded in the first quarter of 2011.

As part of the negotiations with the shipyard to convert tanker contracts to new *Equinox Class* vessels, the Corporation also negotiated options for additional vessels. The options contained expiry dates and if the option was exercised by the expiry date, the Conversion Fee would be reduced accordingly. In 2012, the Corporation negotiated a reduction in the Conversion Fee, while retaining and extending the existing options. As a result, in 2012 the Corporation recognized a further reduction in the previously recognized impairments of $750.

The impairment (reversal) of property, plant and equipment for the twelve months ended December 31, 2012 and 2011 includes the following:

	2012	2011
Reversal of prior period impairments on construction contracts	$ 750	$ 5,066
Other asset impairments	-	(1,952)
	$ 750	$ 3,114

15. INVESTMENT PROPERTY

Investment property comprises a number of commercial properties that are leased to third parties. The majority of the leases contain an initial non-cancellable period of between 5 and 10 years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

The fair value of investment properties as at December 31, 2012 is estimated to be $165,000 compared to $170,000 as of December 31, 2011. The decrease in the fair value is due to a reduction in the estimated yearly cash flows of certain properties.

The fair value of the property was determined by estimating yearly cash flows and then dividing this number by an appropriate capitalization rate which is determined using a number of factors, including property type, location, age, quality of tenants and other risk factors. There was no change in the capitalization rates used over the two periods.

Details of investment property are as follows:

	Cost	Accumulated depreciation	Net book value
Balance at December 31, 2010	$ 113,040	$ 41,706	$ 71,334
Additions	5,281	4,251	1,030
Balance at December 31, 2011	118,321	45,957	72,364
Additions	3,694	4,561	(867)
Balance at December 31, 2012	$ 122,015	$ 50,518	$ 71,497

16. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2012	2011
Due to suppliers and accrued charges	$ 47,995	$ 52,528
Deferred revenue	4,919	267
Due to shipyard for vessel construction	-	15,894
Accrued interest on long-term debt	4,674	5,478
Commodity taxes payable	1,060	3,175
	$ 58,648	$ 77,342

17. EMPLOYEE FUTURE BENEFITS

The Corporation maintains two funded and one unfunded defined benefit pension plans and three defined contribution pension plans, which together cover 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 unfunded 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, 2012 and January 1, 2011. The next required valuation for the defined benefit plans will be as of January 1, 2013 and January 1, 2014.

Information, in aggregate, regarding the Corporation's benefit plans for the years 2012 and 2011 is presented below.

December 31, 2012	Pension Plans	Other Benefit Plans	Total
Present value of employee future benefit obligation	$ 143,731	$ 9,987	$ 153,718
Fair value of plan assets	112,551	1,052	113,603
Net liability arising from employee future benefit obligations	$ 31,180	$ 8,935	$ 40,115

December 31, 2011	Pension Plans	Other Benefit Plans	Total
Present value of employee future benefit obligation	$ 134,869	$ 13,628	$ 148,497
Fair value of plan assets	105,623	751	106,374
Net liability arising from employee future benefit obligations	$ 29,246	$ 12,877	$ 42,123

Movements in the fair value of the plan assets and present value of the obligations are as follows:

2012

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 105,623	$ 751	$ 106,374
Expected return on plan assets	6,240	-	6,240
Actuarial gain	1,843	-	1,843
Benefits paid	(6,832)	-	(6,832)
Employer contributions to plans	5,396	301	5,697
Employee contributions to plans	281	-	281
Fair value, end of year	$ 112,551	$ 1,052	$ 113,603
Employee Future Benefit Obligations			
Obligations, beginning of year	$ 134,869	$ 13,628	$ 148,497
Current service cost	2,835	734	3,569
Past service costs that have vested	-	1,025	1,025
Interest cost	5,938	369	6,307
Benefits paid	(7,224)	(592)	(7,816)
Change in benefit plan provisions	-	(3,101)	(3,101)
Change due to discount rate	8,032	612	8,644
Other actuarial gains	(719)	(2,688)	(3,407)
Obligations, end of year	$ 143,731	$ 9,987	$ 153,718

2011

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 104,461	$ -	$ 104,461
Expected return on plan assets	6,214	-	6,214
Actuarial loss	(4,377)	-	(4,377)
Benefits paid	(6,574)	-	(6,574)
Benefit plan acquired	-	751	751
Employer contributions to plans	5,671	-	5,671
Employee contributions to plans	228	-	228
Fair value, end of year	$ 105,623	$ 751	$ 106,374
Employee Future Benefit Obligations			
Obligations, beginning of year	$ 117,581	$ 7,611	$ 125,192
Current service cost	4,948	540	5,488
Interest cost	6,274	404	6,678
Benefits paid	(7,065)	(267)	(7,332)
Benefit plan acquired	-	4,649	4,649
Change due to discount rates	11,688	691	12,379
Other acturaial losses	1,443	-	1,443
Obligations, end of year	$ 134,869	$ 13,628	$ 148,497

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

	December 31 2012	2011
The Employee Pension Plan of Algoma Central Corporation	**$ (20,228)**	$ (19,246)
The Union Employee Pension Plan of Algoma Ship Repair	**(19)**	(132)
Supplementary Employee Retirement Plan	**(10,933)**	(9,868)
Other benefit plans	**(8,935)**	(12,877)
	$ (40,115)	$ (42,123)

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

2012	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,835	$ 734	$ 3,569
Interest cost on plan obligations	5,938	369	6,307
Change in benefit provisions	-	(3,101)	(3,101)
Past service costs that have vested	-	1,025	1,025
Expected return on plan assets	(6,240)	-	(6,240)
Net benefit expense	$ 2,533	$ (973)	$ 1,560

2011	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 4,948	$ 540	$ 5,488
Interest cost on plan obligations	6,274	404	6,678
Expected return on plan assets	(6,214)	-	(6,214)
Net benefit expense	$ 5,008	$ 944	$ 5,952

The actuarial losses recognized in other comprehensive loss are as follows:

	2012	2011
Cumulative amount at January 1	**$ 30,553**	$ 11,867
Recognized during the period	**2,932**	18,686
	$ 33,485	$ 30,553

In addition, $485 was recognized in 2011 in other comprehensive income for the minimum funding liability for the defined benefit plans.

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

	2012	2011
Short term notes	$ 8,791	$ 7,295
Canadian bonds	48,498	51,073
Canadian equities	23,161	17,895
Foreign equities	34,822	28,370
Annuities	7,513	8,025
	122,785	112,658
Amount related to defined contribution plans	(9,182)	(6,284)
	$ 113,603	$ 106,374

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

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

The actual return on plan assets for 2012 was 8.7% or $8,811 (2011-$1,836 or 1.1%)

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

	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
Discount rate used for estimating accrued benefit obligation	4.0%	4.5%	4.0%	4.5%
Discount rate used for estimating interest cost included in net benefit cost incurred	4.5%	5.3%	4.5%	5.3%
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%

The Corporation's growth rate of health care costs was estimated at 7.0% (2011 - 5%), with the rate trending to 4.6% per annum to 2022. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would have the following effect for 2012:

	Increase	Decrease
Service and interest cost	$ 136	$ 114
Accrued benefit obligation	$ 1,200	$ 985

The Corporation expects to make contribution of $6,400 (2011-$5,929) to the pension plans during the next fiscal year.

The expense recognized in the consolidated statement of earnings for defined contribution plans is $1,579 (2011 - $727).

18. LONG-TERM DEBT

	2012	2011
Convertible unsecured subordinated debentures, due March 31, 2018, interest at 6.0%	$ 63,818	$ 63,044
Senior secured notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	74,617	76,275
Canadian $75,000, interest fixed at 5.52%	75,000	75,000
Senior secured non-revolving term loan, due October 20, 2014, interest fixed at 5.90%	4,000	6,000
Senior secured non-revolving term loan, due October 20, 2016, interest fixed at 5.02% to May 30, 2013	15,500	19,500
	232,935	239,819
Less unamortized financing expenses	7,209	7,837
	225,726	231,982
Current portion	4,773	4,754
	$ 220,953	$ 227,228

In 2011, the Corporation completed a refinancing of its existing bank credit facilities (the “Bank Facility”) and issued senior secured notes payable (the “Notes”) in order to secure long-term financing to support its investment in the *Equinox Class* vessels and the ULG Transaction.

The Bank Facility comprises a $150 million senior secured revolving bank credit facility due July 19, 2016 with a syndicate of six banks. The Bank Facility bears interest at rates that are based on the Corporation’s ratio of senior debt to earnings before interest, taxes, depreciation and amortization and ranges from 175 to 275 basis points above bankers’ acceptance or LIBOR rates.

The Corporation has granted a general security agreement in favour of the senior secured lenders and has granted specific collateral mortgages covering its wholly owned vessels. The Corporation’s real estate assets and vessels that are not wholly owned are not directly encumbered under these agreements.

The Corporation is subject to restrictive and financial covenants with respect to maintaining certain financial ratios and other conditions under the terms of the Bank Facility and the Notes.

At December 31, 2012 and 2011 the Corporation was in compliance with all of the covenants.

The unamortized financing expenses relate to costs incurred to establish the credit facilities and to issue the debentures and senior notes and are being amortized over the remaining terms using the effective yield method.

Principal payments required to service the debt are as follows:

	2012	2011
Falling due within one year	$ 6,000	$ 6,000
Falling due between one and two years	6,000	6,000
Falling due between two and three years	4,000	6,000
Falling due between three and four years	3,500	4,000
Falling due between four and five years	-	3,500
Falling due after five years	213,435	214,319
	$ 232,935	$ 239,819

19. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

Prior to December 14, 2012 each Debenture was convertible into common shares of the Corporation at the option of the holder at any time prior to maturity at a price equal to $154.00 per common share. After December 13, 2012 as a result of the Stock Dividend (see Note 20) each Debenture can be converted into common shares of the Corporation at the option of the holder at any time prior to maturity at a price equal to $15.40 per common share. On redemption at the maturity date, the Corporation may repay the indebtedness represented by the Debentures by paying an amount equal to the aggregate principal amount of the outstanding debentures. On maturity, the Corporation has the option to repay the principal amount with common shares.

The Debentures are compound financial instruments and as such have been recorded as a liability and as equity. The liability component was valued first and the difference between the proceeds of the Debenture and the fair value of the liability was assigned to the equity component. The carrying value of the equity component before income tax and financing costs is $6,498. The carrying value of $4,632, which is net of financing costs and income tax, has been recorded as a separate component in shareholders' equity.

The present value of the liability, net of expenses, of $59,815 was calculated using a discount rate of 7.75% which approximated the interest rate that would have been applicable to non-convertible debt of the Corporation at the time the debentures were issued. The liability component will be accreted to the face value of the debentures over the term of the debentures with a resulting charge to interest expense.

20. SHARE CAPITAL

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

On October 31, 2012 the Board of Directors authorized a split of the common shares of the Corporation by way of a stock dividend of nine common shares for each common share held. The stock dividend was paid on December 14, 2012 to shareholders of record on December 7, 2012.

Prior to the stock dividend there were 3,891,211 common shares outstanding. Following payment of the stock dividend, the Corporation has 38,912,110 common shares outstanding.

Prior period earnings per share calculations have been adjusted to reflect the stock split.

At December 31, 2012 and 2011 there were no preferred shares issued and outstanding.

The basic and diluted net earnings are computed as follows:

	2012	2011
Net earnings for basic earnings per share	$ 43,819	$ 68,844
Dilutive effect of debentures	3,992	3,817
Net earnings for diluted earnings per share	$ 47,811	$ 72,661
Diluted weighted average common shares	4,339,000	4,339,000
Basic earnings per common share	$ 1.13	$ 1.77
Diluted net earnings per common share	$ 1.10	$ $1.68

21. CASH FLOW HEDGING RESERVE

	2012	2011
Balance, beginning of year	$ (418)	$ (1,294)
(Loss) gain arising on change in fair value of hedging instruments entered into for cash flow hedges	(188)	1,237
Income tax related to amounts recognized in other comprehensive earnings	40	(361)
Balance, end of year	$ (566)	$ (418)

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of interest rate swap agreements entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to earnings only when the hedged transaction affects earnings.

22. FOREIGN CURRENCY TRANSLATION RESERVE

	2012	2011
Balance, beginning of year	$ (5,817)	$ (10,369)
Exchange differences on translating net assets of foreign operations	(4,219)	4,552
Balance, end of year	$ (10,036)	$ (5,817)

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

23. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	2012	2011
Change in non-cash operating working capital		
Accounts receivable	$ **(2,263)**	$ (20,004)
Materials and supplies	**(353)**	(1,063)
Prepaid expenses	**(1,214)**	7,195
Accounts payable and accrued charges	**(11,025)**	(3,426)
	$ **(14,855)**	$ (17,298)

24. CAPITAL DISCLOSURES

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

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

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

Included in capital employed are shareholders' equity and long term-debt. The returns on capital employed over the last five years of the Corporation ranged from 8.4% to 9.9%.

The Corporation also uses Adjusted Return on Capital Employed (AROCE) to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders and, in conjunction with other measures of operating performance, is one of the metrics for purposes of determining incentive compensation.

The Corporation defines AROCE as the segments operating earnings after income tax expressed as a percentage of adjusted average capital employed. Adjusted average capital employed is total long-term debt plus shareholders' equity, less the average cash in excess of $10 million and less the average amount of instalments on shipbuilding contracts reflecting the fact that these assets are currently not generating operating earnings.

The AROCE for 2012 was 12.5% versus 11.3% for 2011 and has averaged 11.0% over the five years ended December 31, 2012

The Corporation is not subject to any capital requirements imposed by a regulator.
The long-term debt to shareholders' equity ratio at December 31, 2012 and 2011 is as follows:

	2012	2011
Total long-term debt	$ 232,935	$ 239,819
Shareholders' equity	$ 498,988	$ 468,720
Debt to shareholders' equity ratio	0.47 to 1	0.51 to 1

25. COMMITMENTS

The Corporation has commitments at December 31, 2012 of $194,521.

The commitments relate primarily to the purchase of six *Equinox Class* vessels and the required payments for its employee future benefit plans.

Annual expected payments over the next five years and beyond are as follows:

Due in 2013	$ 115,532
Due in 2014	69,089
Due in 2015	2,842
Due in 2016	2,842
Due in 2017 and beyond	4,216
	$ 194,521

26. CONTINGENCIES

Income taxes

In 1997, the Corporation sold substantially all of its forest lands and reported a capital gain for income tax purposes of $28,076. The Corporation determined the gain based on an independent appraisal of the fair value of 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 is ultimately unsuccessful, the estimated tax and accrued interest owing to December 31, 2012 would be approximately $11,000. In 2002, the Corporation deposited $11,000 with the relevant taxation authorities pending the outcome of the reassessment.

The ultimate liability, if any, is not expected to have a material adverse impact on the financial statements.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

Fair value

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

	December 31	
	2012	2011
Financial assets carrying and fair value		
Cash and cash equivalents	$ **128,923**	$ 132,316
Accounts receivable	$ **79,732**	$ 77,469
Financial liabilities carrying and fair value		
Accounts payable and accrued charges	$ **58,648**	$ 77,342
Derivative liabilities	$ **3,212**	$ 2,489
Carrying value of long-term debt	$ **232,935**	$ 239,819
Fair value of long-term debt	$ **250,573**	$ 246,961

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

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

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

The fair value measurements, as provided by financial institutions, in the balance sheet include derivative assets (Level 2) of $nil (December 31, 2011 - $594) and derivative liabilities (Level 2) of $3,212 as of December 31, 2012 (December 31, 2011 - $3,083).

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

Financial Risk Management Objectives

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

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

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 shipbuilding contracts with foreign shipbuilders for vessels that will join the Canadian flag domestic dry-bulk fleet.

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

Risk management and financial instruments

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

Credit risk

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

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

	December 31, 2012		December 31, 2011	
	Base currency	**Canadian equivalent**	Base currency	Canadian equivalent
Canadian dollar balances	**$ 29,215**	**$ 29,215**	$ 61,085	$ 61,085
U.S. dollar balances	**$ 100,217**	**$ 99,708**	$ 70,040	$ 71,231
		$ 128,923		$ 132,316

Canadian and U.S. dollar cash and cash equivalents are held primarily with a major Canadian financial institution and the risk of default of this institution is considered remote. Cash balances outside of Canada are also held with major financial institutions and are generally kept to a minimum. The U.S. dollar cash balance is being held as a partial hedge against the U.S. dollar denominated long-term debt.

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:

- The majority of accounts receivable at December 31, 2012 and 2011 has been outstanding for 60 days or less;
- 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, 2012 and December 31, 2011 was not material.

Liquidity risk

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

The Corporation maintains credit facilities, which are reviewed regularly to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facility at December 31, 2012 was $150,000 in a revolving facility. At December 31, 2012, the Corporation had $148,733 available in the existing credit facility.

Substantially all of the Corporation's wholly owned marine assets were pledged as collateral for the line of credit. The carrying value as of December 31, 2012 of the assets pledged was approximately $505,000. The Corporation's real estate assets and vessels that are not wholly owned are not directly encumbered under these agreements.

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

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 58,648	$ -	$ -	$ -	$ 58,648
Dividends payable	1,007	-	-	-	1,007
Long-term debt including equity portion	6,000	10,000	3,500	218,617	238,117
Total	$ 65,655	$ 10,000	$ 3,500	$ 218,617	$ 297,772

Market risk

(a) Fuel prices

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

(b) Interest rate risk

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

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite.

At December 31, 2012 and December 31, 2011, the Corporation did not have any cash flow exposure to interest rate movements for its outstanding debt, since all of the Corporation's borrowings have interest rates that have been fixed (Note 18).

At December 31, 2012 and 2011 two of the Corporation's term bank loans had interest rates that have been fixed through interest rate swap agreements expiring in 2013 and 2014.

(c) Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Corporation's earnings for the year ended December 31, 2012 would not have changed as all borrowings have interest rates that are fixed.

Under interest rate swap contracts, the Corporation agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Corporation to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by financial institutions by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of the Canadian dollar denominated interest rate swap contracts outstanding at the end of the reporting period.

	Average Fixed Rate		Notional Principal		Fair Value	
Maturity	2012	2011	2012	2012	2012	2011
May 30, 2013	5.02%	5.02%	$ 17,588	$ 20,288	$ 195	$ 799
October 20, 2014	5.90%	5.90%	4,375	6,319	166	379
			$ 21,963	$ 26,607	$ $361	$ 1,178

The interest rate swaps outstanding at December 31, 2012 settle on a monthly basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges as they reduce the Corporation's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loans occur simultaneously.

The fair values of the interest rate swap contracts are based on amounts quoted by the financial institutions to settle the contracts at a point in time. The difference between fair value and the carrying value has been recorded in the financial statements in accordance with the Corporation's hedge accounting policy.

(d) 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, 2012 and 2011, approximately 32% of the Corporation's total assets were denominated in U.S. dollars.

The Corporation's exposure to foreign currency fluctuations is related to its cash balances, deposits on vessel construction, net investment in foreign subsidiaries and long-term debt denominated in U.S. dollars. The Corporation does not hedge its investments in the subsidiaries as the currency positions are considered long-term in nature. At December 31, 2012 and 2011, the net investment in U.S. dollar foreign subsidiaries was U.S. $158,733 and $223,250, respectively, and the foreign currency denominated long-term debt outstanding was U.S. $75,000.

The Corporation has significant commitments due for payment in U.S. dollars. The Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join 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.

As of December 31, 2012 and 2011, the foreign exchange forward contracts are as follows:

	Notional Principal		Fair Value	
	2012	2011	2012	2011
U.S. dollar denominated contracts	$ 102,621	$ 164,037	$ 2,727	$ 1,311

U.S. dollar denominated contracts of $81,909 mature in 2013 and $20,712 mature in 2014.

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

Based on the Corporation's estimates, a ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce net earnings in the current year by $2,400.

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

- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would decrease Other Comprehensive Earnings by $15,874 and $22,325, respectively.
- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total assets by $27,739 and $27,820, respectively.
- A ten-cent strengthening in the Canadian dollar relative to the U.S dollar would reduce total liabilities by $7,500.

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

28. 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 ownership and management of the operational and commercial activities of the Corporation's 26 - vessel domestic dry-bulk fleet. The dry-bulk vessels carry cargoes of raw materials such as coal, grain, iron ore, salt and aggregates and operate throughout the Great Lakes - St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. This segment also includes a diversified ship repair and steel fabricating facility active in the Great Lakes and St. Lawrence regions of Canada.

The Product Tankers marine transportation segment includes direct ownership and management of the operational and commercial activities of seven 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 worldwide trades.

The Ocean Shipping marine transportation segment includes ownership of two ocean-going self-unloading vessels and a 50% interest through a joint venture in an ocean-going fleet of four self-unloaders. The ocean vessels are engaged in the carriage of dry-bulk commodities in worldwide ocean trades.

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, the Real Estate segment manages and owns a retail mall, two office buildings, a residential apartment building and a hotel. 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 results from operations by reportable segment.

Revenues	**2012**	2011
Domestic Dry-Bulk	**$ 375,553**	$ 389,172
Product Tankers	**87,164**	88,436
Ocean Shipping	**67,668**	75,089
Real Estate	**29,992**	29,993
	$ 560,377	$ 582,690

Net Earnings	**2012**	2011
Operating earnings net of income tax		
Domestic Dry-Bulk	$ **31,644**	$ 36,573
Product Tankers	**9,270**	13,695
Ocean Shipping	**14,999**	15,476
Real Estate	**3,114**	3,383
Impairment reversals of property, plant and equipment	**750**	4,501
	59,777	73,628
Not specifically identifiable to segments		
Net loss on translation of foreign-denominated monetary assets and liabilities	**(3,028)**	(2,073)
Financial expense	**(11,640)**	(8,568)
Income tax (expense) recovery	**(1,290)**	5,857
Net earnings	$ **43,819**	$ 68,844

Operating Expenses	**2012**	2011
Domestic Dry-Bulk	$ **290,612**	$ 295,310
Product Tankers	**56,602**	54,714
Ocean Shipping	**42,293**	49,471
Real Estate	**17,969**	17,442
	$ **407,476**	$ 416,937

Assets	**2012**	2011
Domestic Dry-Bulk	$ **395,493**	$ 372,895
Product Tankers	**193,256**	214,458
Ocean Shipping	**77,967**	77,994
Real Estate	**73,743**	70,063
	740,459	735,410
Not specifically identifiable to segments		
Current assets	**143,255**	138,987
	$ **883,714**	$ 874,397

Additions to Property, Plant and Equipment and Investment Property	2012	2011
Domestic Dry-Bulk	$ 63,184	$31,129
Product Tankers	704	3
Ocean Shipping	4,146	1,585
Real Estate	3,694	5,281
	71,728	37,998
Amounts included in working capital	8,004	649
Total per consolidated statement of cash flows	$ 79,732	$ 38,647

Depreciation of Property, Plant and Equipment and Investment Property	2012	2011
Domestic Dry-Bulk	$ 25,768	$ 26,428
Product Tankers	9,192	9,201
Ocean Shipping	6,595	7,268
Real Estate	4,562	4,251
	$ 46,117	$ 47,148

Liabilities	2012	2011
Domestic Dry-Bulk	$ 35,556	$ 63,180
Product Tankers	7,818	6,585
Ocean Shipping	11,656	4,105
Real Estate	3,618	3,472
	58,648	77,342
Not specifically identifiable to segments		
Current liabilities	8,992	5,660
Other	317,086	322,675
	$ 384,726	$ 405,677

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

The Corporation's proportionate share of the property, plant and equipment and revenues from foreign operations at December 31, 2012 and 2011 is as follows:

	2012	2011
Property, plant and equipment	$ 70,711	$ 78,219
Revenues	$ 70,615	$ 78,057

Sales outside of Canada, primarily to the United States, relate to vessel operations and are based on the location at which a shipment is unloaded. For the years ended December 31, 2012 and 2011, sales outside of Canada were $143,807 and $172,378, respectively.

The Corporation had two customers in 2012 and 2011 whose revenues exceeded 10% of consolidated revenues. Sales by segment for these customers are as follows:

	2012	2011
Domestic Dry-Bulk	$ 88,147	$ 101,653
Product Tankers	$ 77,715	$ 75,489

29. Compensation of Key Management

	2012	2011
Short-term compensation and benefits	$ 3,488	$ 3,256
Post-employment benefits	307	256
	$ 3,795	$ 3,512

The remuneration of directors and other key members of management for the years ending December 31, 2012 and 2011 are as follows:

30. Related Parties

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

There were no transactions with related parties in 2012 and 2011 other than transactions prior to April 14, 2011 with the Seaway Marine Transport partnership as outlined in Note 6.

31. Leasing arrangements

Leases relate to the investment properties owned by the Corporation. Leases have terms of between five to ten years, with many leases having an option to extend for a further term of between five and ten years. Lease renewal rates vary depending on the specific terms of the lease document with renewal rates ranging from no rate increases to previously agreed-to rent increases. Many of the leases have terms that allow for the renewal rate to be set to the current market rates for competitive properties. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable operating lease receivables at December 31, 2012 and 2011 are as follows:

	2012	2011
Not later than 1 year	$ 11,081	$ 11,092
Later than 1 year and not longer than 5 years	28,639	29,122
Later than 5 years	13,913	14,728
	$ 53,633	$ 54,942

FIVE-YEAR SUMMARY *(Note 1)*	2012	2011	2010	2009	2008
Revenue					
Domestic Dry-Bulk	$ 375,553	$ 389,172	$ 202,441	$ 326,015	$ 487,751
Product Tankers	87,164	88,436	76,701	75,466	78,848
Ocean Shipping	67,668	75,089	85,655	92,620	97,924
Real Estate	29,991	29,993	28,905	26,046	24,391
	$ 560,376	$ 582,690	$ 393,702	$ 520,147	$ 688,914
Net earnings	$ 43,819	$ 68,844	$ 18,556	$ 38,845	$ 41,280
Segment operating earnings net of income taxes	$ 59,777	$ 73,628	$ 21,140	$ 30,717	$ 45,861
Depreciation of property, plant and equipment and investment properties	$ 46,117	$ 47,148	$ 39,747	$ 36,103	$ 34,221
General and administrative expenses	$ 30,289	$ 29,636	$ 23,313	$ 28,456	$ 26,802
Cash flow generated from operating activities	$ 84,217	$ 103,844	$ 67,539	$ 60,336	$ 89,975
Dividends paid	$ 8,438	$ 6,823	$ 6,861	$ 6,835	$ 6,455
Business acquisition	$ -	$ 86,752	$ -	$ -	$ -
Additions to property, plant and equipment and investment properties					
Domestic Dry-Bulk	$ 63,184	$ 31,129	$ 39,777	$ 33,654	$ 30,473
Product Tankers	704	3	13,657	51,848	97,054
Ocean Shipping	4,146	1,585	12,135	354	40,060
Real Estate	3,694	5,281	2,624	5,462	2,318
	$ 71,728	$ 37,998	$ 68,193	$ 91,318	$ 169,905
Net property , plant and equipment and investment properties					
Domestic Dry-Bulk	$ 325,393	$ 288,949	$ 172,330	$ 135,179	$ 120,971
Product Tankers	138,783	146,145	217,841	251,470	222,001
Ocean Shipping	64,951	70,031	74,306	119,911	148,025
Real Estate	71,497	72,364	71,334	72,036	71,093
	$ 600,624	$ 577,489	$ 535,811	$ 578,596	$ 562,090
EBITDA					
Domestic Dry-Bulk	$ 68,822	$ 75,166	$ 22,425	$ 18,846	$ 36,570
Product Tankers	23,013	28,674	26,271	22,448	17,583
Ocean Shipping	21,979	22,838	24,589	25,501	27,243
Real Estate	8,798	9,439	8,773	8,827	11,435
	$ 122,612	$ 136,117	$ 82,058	$ 75,622	$ 92,831
Total assets	$ 883,714	$ 874,397	$ 664,552	$ 694,306	$ 706,092
Long-term debt including current	$ 225,726	$ 231,982	$ 118,369	$ 112,953	$ 95,184
Shareholders' equity	$ 498,988	$ 468,720	$ 409,788	$ 438,733	$ 444,070
LTD as % of shareholders' equity	45.2%	49.5%	28.9%	25.7%	21.6%
Return on capital employed *(Note 2)*	8.3%	8.2%	5.9%	6.0%	9.9%
Adjusted return on capital employed *(Note 3)*	12.5%	11.3%	7.7%	7.2%	11.9%
Return on equity *(Note 4)*	9.1%	15.7%	7.2%	8.8%	10.3%
Total shareholder return *(Note 5)*	41.0%	11.0%	21.4%	57.5%	-61.2%

FIVE-YEAR SUMMARY *(Note 1)*	2012	2011	2010	2009	2008
Common Share Statistics *(Note 6)*					
Common shares outstanding (000)	38,910	38,910	38,910	38,910	38,910
Basic earnings per share	$ 1.13	$ 1.77	$ 0.48	$ 1.00	$ 1.06
Diluted earnings per share	$ 1.10	$ 1.68	$ 0.48	$ 1.00	$ 1.06
Cash flow generated from operations per share	$ 2.16	$ 2.67	$ 1.74	$ 1.55	$ 2.31
Quoted market value					
High	$ 16.00	$ 10.40	$ 10.05	$ 8.40	$ 14.42
Low	$ 9.90	$ 8.25	$ 7.20	$ 5.10	$ 4.80
Dividends per share	$ 0.22	$ 0.18	$ 0.18	$ 0.18	$ 0.17
Shareholders' equity per share	$ 12.82	$ 12.05	$ 10.53	$ 11.28	$ 11.31

Note 1 *- 2012, 2011 and 2010 are based on IFRS : 2009 and 2008 are based on Canadian GAAP.*

Note 2 *- Return on capital employed is defined as segment operating earnings after income taxes expressed as a percent of average opening and closing capital employed. Capital employed is long-term debt plus shareholder's equity.*

Note 3 *- Adjusted return on capital employed is defined as segment operating earnings after income taxes expressed as a percent of adjusted average capital employed. Adjusted average capital employed is capital employed less the average cash in excess of $10 million and less the average amount of instalments on ship-building contracts, reflecting the fact that these assets are currently not generating operating earnings.*

Note 4 *- Return on equity is net earnings as a percent of avearge shareholders' equity.*

Note 5 *- Total shareholder return is defined as the percentage increase in the year in the common share price plus dividends paid.*

Note 6 *- Per common share amounts have been restated to reflect the common share split by way of a stock dividend of nine common shares for each common share held effective December 14, 2012.*

Directors

H. Michael Burns (1) (2) (3)
Vaughan, Ontario,
Corporate Director

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

E. M. Blake Hutcheson (1)
Toronto, Ontario,
President and Chief Executive Officer
Oxford Properties Group Inc.

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

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

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

William S. Vaughan, BCL (3)
Toronto, Ontario,
Partner, Heenan Blaikie, LLP

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

Shareholders' Meeting:
The Annual Meeting of Shareholders will be held at 11:30 a.m., on Friday May 3, 2013, at the St. Catharines Golf & Country Club, 70 Westchester Avenue, St. Catharines, ON

(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

Principal Officers

Duncan N. R. Jackman
Chairman

Greg D. Wight, FCA
President &
Chief Executive Officer

Wayne A. Smith
Senior Vice President, Commercial

Al J. Vanagas, CET
Senior Vice President, Technical

Dennis McPhee
Vice President, Sales and Vessel Traffic

Captain James D. Pound
Vice President, Operations

Thomas G. Siklos
Vice President,
Algoma Central Properties Inc.

Karen A. Watt
Vice President, Human Resources

Peter D. Winkley, CA
Vice President, Finance &
Chief Financial Officer

William S. Vaughan, BCL
Secretary

J. Wesley Newton LLB
Assistant Secretary

Contact Information

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

DOMESTIC DRY-BULK
AND TANKER OPERATIONS
20 Corporate Park Drive, Suite 300,
St. Catharines, Ontario, L2S 3W2
(905) 988-2600

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

ALGOMA SHIP REPAIR
1 Chestnut Street,
Port Colborne, Ontario, L3K 1R3
(905) 834-4549

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

ALGOMA SHIPPING LTD.
Century House, 16 Par-la-dille Road
Hamilton, Bermuda

MARBULK SHIPPING LTD.
Cannon's Court, 22 Victoria Street
Hamilton, Bermuda

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

Shareholder Information

Principal Banker and Security Agent:
The Bank of Nova Scotia

Auditors:
Deloitte LLP

The Toronto Stock Exchange Symbol:
ALC

Share Registrar and Transfer Agent:
CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700, Station B
Montreal, QC, H3B 3K3
Tel: 1 (800) 387-0825 / (416) 682-3860
Fax: 1 (888) 249-6189
E-Mail: inquiries@canstockta.com
Website: www.canstockta.com

Fleet

Cargo capacity in tonnes

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

Algoma Central Corporation
Self-Unloaders

		Maximum	Seaway Draft
CAPTAIN HENRY JACKMAN	GL	30,924	27,260
JOHN B. AIRD	GL	31,352	27.755
PETER R. CRESSWELL	GL	31,081	27,279
RADCLIFFE R. LATIMER	GL/ES	37,257	26,870
ALGOMA MARINER	GL/ES	37,257	26,870
ALGOLAKE	GL	33,334	28,042
ALGOMARINE	GL	27,185	24,942
ALGORAIL	GL	24,133	21,060
ALGOSOO	GL	30,770	27,993
ALGOSTEEL	GL	27,382	24,942
ALGOWAY	GL	24,194	21,418
ALGOWOOD	GL	32,771	27,715
ALGOMA ENTERPRISE	GL	34,398	27,997
ALGOMA NAVIGATOR	GL	30,811	26,283
ALGOMA OLYMPIC	GL	34,403	27,949
ALGOMA PROGRESS	GL	32,145	27,913
ALGOMA TRANSPORT	GL	33,203	26,815
ALGOMA TRANSFER	GL	15,971	15,971
JOHN D. LEITCH	GL	34,675	28,803

Algoma Central Corporation
Bulk Carriers

TIM S. DOOL	GL	31,553	28,116
ALGOMA PROVIDER	GL	29,425	26,471
ALGOMA MONTREALAIS	GL	31,553	28,116
ALGOMA QUEBECOIS	GL	29,177	26,469
ALGOMA SPIRIT	UO	37,792	25,140
ALGOMA DISCOVERY	UO	37,911	25,140
ALGOMA GUARDIAN	UO	37,911	25,140

Vessels Under Construction
Self-Unloaders

ALGOMA CONVEYOR	GL	37,000	28,200
ALGOMA SAULT	GL	37,000	28,200
ALGOMA NIAGARA	GL	37,000	28,200
HULL MD 161-SUL-07	GL	37,000	28,200

Bulk Carriers

ALGOMA EQUINOX	GL	38,450	29,650
ALGOMA HARVESTER	GL	38,450	29,650
CWB MARQUIS *(Note 1)*	GL	38,450	29,650
CWB STRONGFIELD *(Note 1)*	GL	38,450	29,650

Note 1: Vessels owned by CWB and to be managed by the Corporation.

Fleet (continued)

Cargo capacity in tonnes

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

Algoma Tankers Limited
Petroleum Tankers

		Maximum	Winter
ALGOEAST	GL/ES	10,098	9,762
ALGOSAR	GL	12,550	11,500
ALGOSCOTIA	UO	18,580	18,000
ALGOSEA	UO	16,775	16,267
ALGONOVA	UO	11,267	10,899
ALGOCANADA	UO	11,267	10,899
ALGOMA DARTMOUTH	UO	3,568	3,436

Algoma Tankers International
Petroleum Tanker

ALGOMA HANSA	UO	16,175

Algoma Shipping Ltd.
Self-Unloaders

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

Marbulk Canada Inc.
Self-Unloaders

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

Real Estate

Sault Ste. Marie

STATION MALL	Retail	464,009 square feet
STATION TOWER	Office	61,810 square feet
289 BAY STREET	Office	18,545 square feet
STATION 49	Residential	102 suites
DELTA WATERFRONT INN & CONFERENCE CENTRE	Hotel	195 rooms

St. Catharines

63 CHURCH STREET	Office	72,256 square feet
RIDLEY SQUARE	Retail	47,585 square feet
HUNTINGTON SQUARE	Retail	43,141 square feet
MARTINDALE BUSINESS CENTRE	Office/Light Industrial	35,276 square feet
20 CORPORATE PARK DRIVE	Office	41,621 square feet
25 CORPORATE PARK DRIVE	Office	42,053 square feet
75 CORPORATE PARK DRIVE	Office	57,004 square feet

Waterloo

408 ALBERT STREET	Office	27,000 square feet
410 ALBERT STREET	Office	100,384 square feet
412 ALBERT STREET	Office	27,470 square feet

The *M/V Algobay* was renamed in honour of Radcliffe R. Latimer in a rededication ceremony in Port Colborne on October 4, 2012.

The self-unloading bulk carrier, *Algobay*, which transports commodities such as grain, coal, iron ore and gypsum to ports around the Great Lakes, St. Lawrence Seaway and Atlantic Canada, will now be called the *M/V Radcliffe R. Latimer*. Mr. Latimer, who recently retired from the Algoma Central Corporation board of directors, had an association with the Corporation spanning 46 years and acted as its chairman between 2003 - 2010.

The *Algobay* was originally constructed in Collingwood Shipyard in 1978. After nearly 30 years of service in the Algoma Central fleet, the vessel underwent a major refit, including re-engining and a forebody conversion project at Chengxi Shipyard in China and returned to service with the Corporation in 2010.

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2012