2016 ANNUAL REPORT

Short Sea Shipping is OUR BUSINESS

Our Vision

Algoma's Vision is to grow our position as the carrier of choice for bulk commodities in the Great Lakes - St. Lawrence Waterway to become a leader in short sea shipping globally.

Short Sea Shipping is OUR BUSINESS

Domestic fleets doing coastal or inland trade are often referred to as being involved in short sea shipping. Although the definition of short sea shipping varies by country, this specific activity is usually understood as the movement of cargo by water without directly crossing an ocean. In North America and Europe these inland waterways and coastal areas are often referred to as "marine highways". Great Lakes and St. Lawrence waterway navigation is typical of short sea shipping, as goods are moved by lakers between inland ports and to ports in the east, where cargo for overseas customers is loaded on foreign-flag ocean-going vessels.

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About the Company

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 Company's Canadian flag fleet consists of fourteen self-unloading dry-bulk carriers, seven gearless dry-bulk carriers and six product tankers. The Company also has seven construction contracts for Equinox Class vessels for domestic dry-bulk service.

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Company's 20 vessel fleet. The dry-bulk vessels carry cargoes of raw materials such as 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 the operational management of three vessels owned by other ship owners.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of six Canadian flag tanker vessels operating on the Great Lakes, the St. Lawrence Seaway and the east coast of North America.

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

The Global Short Sea Shipping segment includes a 50% interest, through a joint venture, in a fleet of seven cement carriers. The joint venture also has construction contracts for three additional cement carriers. The cement carrier vessels support infrastructure projects worldwide.

In addition to the marine businesses, the Company also owns and manages commercial real estate in Sault Ste. Marie and St. Catharines, Ontario which is currently held for sale.

Financial Highlights

	2016	2015
For the year		
Revenue	**$ 379,404**	$ 413,493
Net earnings from continuing operations	**$ 7,374**	$ 21,069
Net earnings from discontinued operations	**$ 25,941**	$ 4,702
Net earnings	**$ 33,315**	$ 25,771
Basic and diluted earnings per common share	**$ 0.86**	$ 0.66
Operating ratio (Note 1)	**94.2%**	96.4%
EBITDA (Note 2)	**$ 89,300**	$ 79,538
Cash flow generated from operating activities	**$ 90,124**	$ 57,751
Additions to property, plant, and equipment	**$ 248,864**	$ 115,857
Dividends paid per common share	**$ 0.28**	$ 0.28
Return on capital employed (Note 3)	**4.2%**	2.5%
Adjusted return on capital employed (Note 4)	**6.7%**	4.1%
Return on equity	**5.3%**	4.2%
At December 31		
Total assets	**$ 1,036,013**	$ 988,805
Shareholders' equity	**$ 641,550**	$ 618,610
Long-term debt (including current)	**$ 243,260**	$ 245,306
Equity per common share	**$ 16.49**	$ 15.90
Common shares outstanding	**38,913,733**	38,913,733

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

Note 2 - EBITDA refers to earnings before interest, taxes, depreciation, and amortization including EBITDA of discontinued operations and the Company's share of the EBITDA of equity interests in joint arrangements.

Note 3 - Return on capital employed is defined as 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.

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 shipbuilding contracts, reflecting the fact that these assets are currently not generating operating earnings.

To Our Shareholders

As I approach my second anniversary as CEO of Algoma Central Corporation I can look back at significant changes for the Company in just 22 months. When I joined the Company in April 2015, we were emerging from a very harsh winter. A year later, as the 2016 sailing season opened, everyone was talking about the warm winter we had just experienced and wondered what that meant for the coming year.

Fiscal 2016 turned out to be a year of challenges and changes for Algoma and I am happy with the way in which all members of the Algoma team rose to the occasion. In this letter I will highlight the challenges we faced, the choices we have made, and the changes we expect to see as a result. But first, a brief overview of the year just passed.

Financial Results

Algoma is reporting revenues for 2016 of $379.4 million, a drop of 8% compared to the prior year. Both of our domestic businesses experienced reduced volumes, although an increase in our interest in the International Pool offset some of this drop. In Domestic Dry-Bulk, the poor grain harvest in 2015 and the warm winter weather led to significant decreases in grain and salt volumes, particularly early in the season. Lakes fleets, including ours, fitted out more slowly and our results in the early part of the season reflected this.

Competition in the dry-bulk market continues to be fierce. Industry capacity exceeds current demand and many lakers were laid up last year as a result. Algoma retired and sold four dry-bulk vessels during the year and began the season with two vessels in long-term lay-up. An unexpected increase in export ore business enabled us to fit these two ships out, but fleet utilization was lower than we expected for most of the year.

Our Tanker volumes were also down for the year, primarily in the first half. The warm winter resulted in reduced winter operations for our ships and supply chain changes made by our key customer led to spare vessel capacity that exceeded normal market fluctuations. We responded by moving one of our vessels, the *Algoscotia*, into international markets for nearly five months. While this enabled us to cover the fixed costs of the ship and earn a profit, international earnings levels are below what we earn in Canadian service. We also retired a tanker in 2016 that had reached the end of its useful life.

Our International Pool participation provided a bright spot for revenues. In January, we participated in a buy-out of another Pool member’s five ships, doubling our direct interest in the Pool and our reported revenues for the year reflect this change.

Earnings before interest, taxes, and depreciation (EBITDA - see reconciliation in our Management's Discussion and Analysis or MD&A) were $89.3 million compared to $79.5 million last year. This improvement in light of the significant drop in revenues was a result of a focused program to eliminate unnecessary spending in operations. These efforts paid dividends this year in the form of reduced operating expenses per operating day. We are now focusing similar attention on our general and administrative spending, which increased this year due to some one-time costs. Our objective from these programs is to become a cost leader in our industry segments, both domestically and internationally.

Net earnings for 2016 were $33.3 million or $0.86 per share compared to 2015 net earnings of $25.8 million or $0.66 per share. There were a number of positive and negative factors that impacted our earnings this year. The main items were:

- Earnings for 2016 are net of an impairment provision of $42.7 million and a foreign currency loss of $7.5 million. The declining prospects for our domestic business, lower volumes and rates that reduce the earnings of our fleet, and accounting rules require that we provide for this reduction. While our businesses continue to generate earnings and cash, they are not as profitable as they once were.

- Earnings for both years were affected by gains arising from the cancellation of our Nantong Mingde newbuilds. Net gains in 2016 were $26.4 million compared with $13.6 million in the prior year.

- We completed the sale of certain properties from our real estate portfolio, comprising five buildings over three sites. Gains from these sales, combined with improved operating results for the portfolio, lifted income from real estate by $21.2 million. This is disclosed as earnings from discontinued operations in our earnings statement.

Cash flow from operating activities for 2016 totaled $90.1 million compared to $57.8 million for 2015. In addition to cash from operations, we also had significant cash inflow from our real estate sales and from collection of the deposits on the cancelled Mingde newbuilds. Cash inflows in the year totaled $256.8 million, not counting a small currency gain on net borrowings transactions. We spent this cash on new ships, including the 2.5 new ocean ships, our investment in NovaAlgoma Cement Carriers, and of course, dividends to our loyal shareholders. Total cash expenditures amounted to $330.9 million and as a result we drew down some of our existing cash reserves for these investments. At year end, our cash balance stood at $130.0 million which, when combined with our expected cash inflows for 2017 and our available credit facilities, leaves us well positioned to continue the aggressive investment plan we have in place.

2016 Accomplishments

As reported last year, in the fall of 2015 Algoma rolled out its new strategic vision , Double Double by 2025, and its new mission statement: grow our position as the carrier of choice for bulk commodities in the Great Lakes- St. Lawrence Waterway to become a leader in short sea shipping globally. Very soon thereafter, at the beginning of 2016, we announced two steps along this path. Our focus on this strategy has led to some critical achievements in 2016.

NovaAlgoma Cement Carriers or NACC, which we announced in January last year, is our first truly new opportunity in many years. The business at that time consisted of three operating vessels, two vessels under construction, and a lot of big ideas. In fact, we thought growing to 10 vessels in three years was a pretty good target. As I write this letter, NACC has grown to seven operating vessels with three more due for delivery shortly and two new projects under consideration. In short, it appears we will exceed our three year goal in just 18 months and we believe there are still many attractive opportunities in that market.

NACC has been a change agent for Algoma. It has required that we shift our focus to include a broader international market view and that we develop the skills and knowledge needed to be an effective participant. I commend the Algoma team members who have stepped up to this challenge and delivered. We have, in the process, developed a very strong relationship with our new partner; one that I expect will continue to pay dividends.

Also in January 2016, we completed the acquisition of two vessels and a fifty percent interest in a third vessel, all of which operate in an international Pool. This acquisition increases our interest in that Pool to approximately 24%. The Pool is the largest fleet of self-unloading vessels in the world and services the east and west coasts of the Americas, with a particular focus on supplying bulk commodities to the US market. We have been a member of the Pool for nearly 20 years and it remains a very profitable asset for us.

This acquisition resulted in the retirement of one of the Pool members. Since then, the Pool has worked proactively to reduce vessel supply by retiring older ships. Our fifty percent owned Eastern Power was one of the vessels retired this year. We received a buy-out payment as part of the retirement and that, combined with proceeds from the sale of the ship, resulted in a small gain on the transaction. More importantly, as the number of ships in the Pool decreases, the share of earnings for remaining members increases and this was our real motivation for entering into the transaction. With these plans now in place and in process, the Pool is well positioned to maintain its competitive strength in this market.

In domestic operations, we achieved results that exceeded our initial expectations and results I am particularly happy with in light of the large and unexpected drop in revenues we experienced in the early part of the year. As mentioned earlier, quick action to curtail discretionary spending and investment that could not be justified in light of the changing business conditions actually resulted in EBITDA for Domestic Dry-Bulk that was ahead of our plan and ahead of last year - a noteworthy accomplishment in a year when revenues fell 18%.

Approximately 18 months ago we were advised to expect a significant change in the demand for our product tanker fleet from our key customer in that market. We responded quickly, identifying and acting on an opportunity to move a spare vessel into international service. While we have previously brought foreign vessels into Canada, this was our first experience taking a Canadian flagged vessel into international service. Our technical and crewing staff moved quickly to devise a plan that would meet the needs of the opportunity identified by our commercial department - a true demonstration of teamwork. We do not currently expect any of our tankers to be in international service in 2017; however, as our tanker market changes, the fact that these vessels are fully ocean class and we now have a process in place to rapidly reflag a ship for foreign service means we are able to respond to opportunities wherever they arise.

As I mentioned last year, our on-going difficulties with the Nantong Mingde shipyard drew to a head and in 2016 our dogged pursuit of a resolution led to two positive outcomes. First, and most importantly, we collected 100% of the money owed to us by the shipyard, along with interest, despite the fact that the shipyard has been engaged in a protracted liquidation. We commend the Chinese banks that provided the refund guarantees on the project for their prompt fulfillment of their obligations. This money is now being redirected to our seven new shipbuilding contracts.

In a related development, I am pleased to announce that, working in cooperation with G3 Canada Limited, we were successful in acquiring the G3 Strongfield at auction in January 2017. Construction of this ship was essentially complete when the shipyard entered bankruptcy protection and it will now become the fourth Equinox bulker in the Algoma Bulker Pool.

Also, as you know, we have begun liquidating our real estate portfolio. We sold five buildings in 2016 and expect to sell a further nine before the end of 2017. Our original expectation of $130 million net proceeds from selling the portfolio continues to look achievable. Of note, post year-end we opted to discontinue the plan to sell our head office building in St. Catharines in order to maintain our flexibility and to maximize the value of the building in which we occupy 1/3 of the space.

What to Expect in 2017

We expect 2017 to be a year in which we further develop our international opportunities. In addition to finalizing delivery of the NACC ships currently under construction, we are looking at a number of other opportunities in the short sea shipping industry. I hope to be able to announce further initiatives in the coming months.

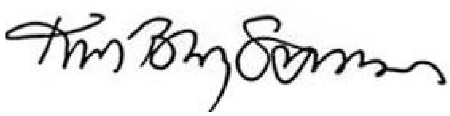
Domestically, we are looking forward to the delivery of two of our new vessels, a 650’ self-unloader from Croatia and a 740’ self-unloader from China. These ships, combined with the Strongfield will bring the total count of Equinox vessels that we own to five with five more to come. Once all ships are delivered in 2019 we will have 14 vessels in the combined domestic fleet of 26 that are ten years old or less.

We expect that the upcoming year for Canada will be a year of continued slow growth, although at this point the grain and salt markets appear to be shaping up better than they performed in 2016. We expect rate pressure to continue, and this has led us to record an impairment provision in our year-end accounts for both Domestic Dry-Bulk and Product Tankers. More detail on this can be found in our MD&A.

The results of the 2016 US election have caused significant market uncertainty. Views of economists and other market watchers are mixed, with some sharing dire warnings of reduced global trade while others predict stronger U.S. growth driven by renewed infrastructure spending. Our customers are exposed to both U.S. and world markets, making the impact on their business and ours very difficult to predict. We will continue to do what we have always done - provide reliable and flexible marine transportation for our customers.

On behalf of the Company and our employees, I 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 employees.

I would also like to invite you to attend our Annual General Meeting at 11:30 a.m. on May 5th, 2017 at the Holiday Inn Hotel & Suites Conference Centre, 327 Ontario Street, St. Catharines. I look forward to seeing you there.



Ken Bloch Soerensen
President and Chief Executive Officer

General

Algoma Central Corporation (“Algoma” or the “Company” or the "Corporation") operates through four segments, Domestic Dry-Bulk, Product Tankers, Ocean Dry-Bulk Shipping and Global Short Sea Shipping.

This Management’s Discussion and Analysis (“MD&A”) of the Company should be read in conjunction with its consolidated financial statements for the years ending December 31, 2016 and 2015 and related notes thereto and has been prepared as at February 22, 2017.

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 Company, including its 2016 Annual Information Form, is available on the SEDAR website at *www.sedar.com* or on the Company's website at *www.algonet.com*.

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

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 (ROCE) 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 Company 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. ROCE is also used as one of the benchmark rates of return in assessing capital investment opportunities.

The Company 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 Company 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.

Operating ratio, which is among the measures we use to assess the cost efficiency of our business units, is equal to operating costs plus general administrative costs plus depreciation expense expressed as a percentage of revenue. The operating ratio is a commonly used metric for transportation companies; however, our method of calculation of operating ratio may not be consistent with the calculation used by others.

EBITDA refers to earnings before interest, taxes, depreciation, and amortization. We also include EBITDA of discontinued operations and our share of the EBITDA of our equity interest in joint arrangements in this measure. 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 Company's EBITDA may also not be comparable to EBITDA used by other corporations, which may be calculated differently. The Company considers EBITDA to be a meaningful measure to assess its operating performance in addition to other IFRS measures. It is included because the Company believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business, and it is used by credit providers in the financial covenants of the Company's long-term debt.

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 2017 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: on-time and on-budget delivery of new ships from shipbuilders; 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 from other transportation providers; reliance on partnering relationships; 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 if required; 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 of risks in the Company’s Annual Information Form for the year ended December 31, 2016, which outlines in detail certain key factors that may affect the Company’s future results. This should not be considered a complete list of all risks to which the Company may be subject from time to time. When relying on forward-looking statements to make decisions with respect to the Company, 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 Company 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

	2016	2015	2014
For year ended December 31			
Revenues	**$ 379,404**	$ 413,493	$ 473,446
Net earnings	**$ 33,315**	$ 25,771	$ 52,765
Basic earnings per common share	**$ 0.86**	$ 0.66	$ 1.36
Continuing operations			
Net earnings	**$ 7,374**	$ 21,069	$ 48,977
Basic earnings per common share	**$ 0.19**	$ 0.54	$ 1.26
Net earnings from discontinued operations	**$ 25,941**	$ 4,702	$ 3,788
At December 31			
Common shares outstanding	**38,913,733**	38,913,733	38,912,110
Total assets	**$ 1,036,013**	$ 988,805	$ 974,055
Total long-term financial liabilities	**$ 251,830**	$ 245,306	$ 227,562

Consolidated revenues for 2016 were $379,404, a decrease of 8% compared to the $413,493 reported for fiscal 2015. An increase in revenue in the Ocean Dry-Bulk segment resulting from an approximate doubling of our interest in the International Pool was more than offset by volume related decreases in Domestic Dry-Bulk and Product Tankers. Revenues of the Global Short-Sea Shipping segment, in which we participate via joint ventures, is not included in the consolidated revenue figure. Our Global Short-Sea Shipping venture generated revenues of $17,983. We have a 50% interest in this venture.

Net earnings from continuing operations, which excludes income from our discontinued real estate business, was $7,374 compared to $21,069 for 2015. Earnings for both years are affected by certain specific transactions or events, as follows:

- Earnings for both years include gains related to the cancellation of shipbuilding contracts and the refund of progress payments made on those contracts. Fiscal 2016 results include a gain of $26,387 and fiscal 2015 includes a gain of $13,567. The refunds and related interest were collected in full in 2016.
- Earnings for fiscal 2016 reflect a loss of $7,536 resulting from marking to market certain forward foreign exchange contracts that became ineffective as hedges for accounting purposes during the fourth quarter. This amount reflects the period end difference between the value of these contracts at current exchange rates and the contracted rates.
- Earnings for fiscal 2016 are net of provisions totalling $42,661 related to impairment of the carrying value of our Domestic Dry-Bulk and Product Tanker fleets (2015 - $937) and $5,033 (2015 - $2,686) related to the accelerated depreciation on certain vessels scheduled for retirement.

The net income impact of the items above is:

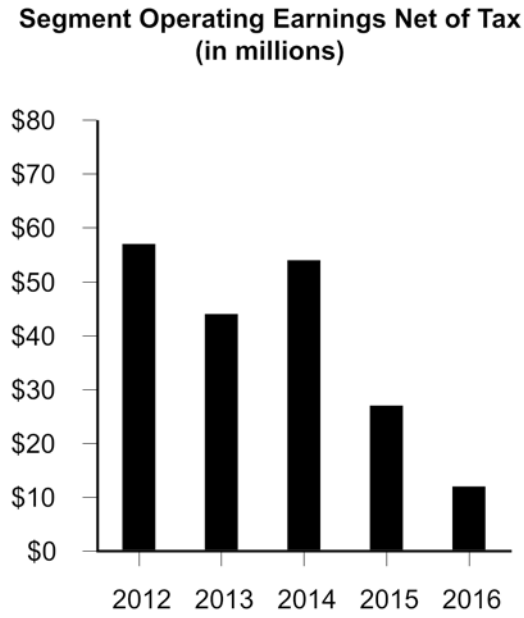
	2016	2015	Favourable (Unfavourable)
Net earnings from continuing operations	**$ 7,374**	$ 21,069	$ (13,695)
After tax impact of items outlined above	**$ 19,271**	$ (7,998)	$ 27,269
Net earnings from continuing operations excluding specific transactions mentioned above	**$ 26,645**	$ 13,071	$ 13,574

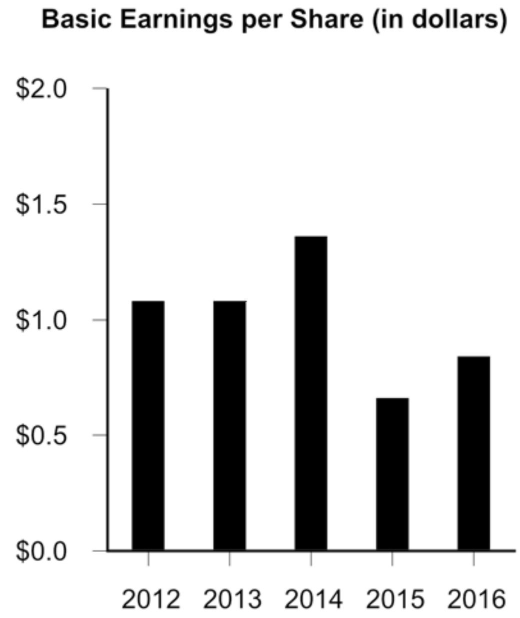
Net earnings from discontinued operations reflects the results from our real estate business for the year. Net earnings from the operation of our properties for 2016 was $5,634 compared to $4,702 for 2015. Once this business was deemed to be discontinued we ceased to record deprecation on the properties and this is the principal reason for the increased income. In addition to the earnings from operating the buildings, we completed the sale of five buildings during 2016. The sales of these buildings resulted in an after-tax gain of $20,307.

Basic earnings per share for 2016 were $0.86 compared to $0.66 for 2015.

The Company uses EBITDA as a measure of the cash generating capacity of its businesses. The following table reconciles EBITDA to Net Earnings, the most nearly comparable IFRS measure. EBITDA for 2016 was $89,300, an increase of 12% compared to the prior year. EBITDA is determined as follows:

	2016	2015
Net earnings	**$ 33,315**	$ 25,771
Adjustments to net earnings:		
Depreciation	**46,903**	44,907
Impairment expense	**42,661**	937
Loss on foreign currency forward contracts	**7,536**	—
Gain on cancellation of shipbuilding contracts	**(26,387)**	(13,567)
Net interest expense	**8,682**	12,010
Foreign exchange gains (losses)	**(3,505)**	(3,789)
Income tax (recovery) expense	**(8,351)**	4,266
Discontinued operations:		
Gain on sale of real estate	**(24,396)**	—
Depreciation in discontinued operations	**1,955**	5,544
Income tax expense	**6,122**	1,718
Joint ventures:		
Interest expense	**1,344**	—
Foreign exchange gain	**(625)**	—
Depreciation	**4,046**	1,741
EBITDA	**$ 89,300**	$ 79,538





Summary of Quarterly Results

The results for the last eight quarters are as follows:

Year	Quarter		Revenue		Net Earnings (Loss)		Basic Earnings (Loss) per Share
2016	Quarter 4	$	127,392	$	(11,753)	$	(0.30)
	Quarter 3	$	115,333	$	38,502	$	0.99
	Quarter 2	$	96,202	$	13,261	$	0.34
	Quarter 1	$	40,477	$	(6,695)	$	(0.17)
2015	Quarter 4	$	119,171	$	10,591	$	0.27
	Quarter 3	$	125,077	$	14,842	$	0.38
	Quarter 2	$	125,336	$	23,330	$	0.60
	Quarter 1	$	43,909	$	(22,992)	$	(0.59)

Impact of Seasonality on the Business

The nature of the Company'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 the 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 most 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 those of the remaining quarters in the year.

Business Segment Discussion

Domestic Dry-Bulk

Business Segment and Markets

The Domestic Dry-Bulk segment includes the activities of the Company's Canadian flag dry-bulk vessels and ship management businesses.

The Company'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 its variety of vessel configurations, allows the Company to accommodate almost every dry-bulk shipping requirement.

During 2016, the Company operated 14 self-unloading bulk carriers and seven gearless bulk carriers in its' Canadian flag dry-bulk fleet, including the *G3 Marquis*, which is owned by G3 Canada Limited and managed commercially and technically by Algoma. The *G3 Marquis* is a gearless bulker that, along with six gearless bulkers owned by Algoma, form the Algoma Bulker Pool. Traditional gearless bulk carriers require shore-side facilities to discharge cargo and are primarily deployed in the movement of grain and iron ore.

Self-unloading bulk carriers discharge their cargo using onboard equipment. Cargo flows from the cargo hold through gates to conveyors located below the 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 out 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, these ships can carry all types of cargos.

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

Cargo volumes for fiscal 2016 were down significantly compared to 2015, with a corresponding decrease in vessel revenue days. Total volumes were down 19% and revenue days were down 21%. Anticipating a drop in 2016 volumes early in the year, Algoma took steps to retire older vessels as these vessels are typically more costly to operate.

A changing mix of trades over the course of the year resulted in shorter average trip times in gearless bulker trades and heavier average cargo loadings in self-unloader trades. The combined result was a 6% increase in average daily earnings for the fleet, offsetting some of the drop in revenue caused by volumes. We measure daily earnings by deducting all voyage expenses and fuel costs from the gross freight revenue.

Volumes and revenues were down in all major market sectors in 2016. The most significant impact was in salt, for which an extremely mild winter caused a 48% decrease in volumes compared to the prior year. Because this drop was anticipated before the spring fit-out, one of the ships usually dedicated to this trade did not sail in the first half of the 2016 navigation season. Revenues from salt were down 42% as some efficiency gains in trading patterns offset a portion of the volume drop and resulted in an improvement in daily earnings.

Agricultural markets began the year slowly, largely a result of a poor grain harvest in 2015. The season began with a more gradual fit-out for the grains trade and volumes in the first half of the year were substantially lower. A better harvest this Fall enabled us to make up some of the shortfall, and we finished the year with volumes down 10%. In addition to the drop in volumes, shorter average trip times reduced the daily earnings from this sector. Overall, revenues from the agricultural sector were down approximately 18%.

Iron and steel sector volumes were down 8%, reflecting some continued softness in that industry. Late in the year an unexpected increase in export ore demand presented an opportunity to utilize two ships that had not previously operated in 2016. These vessels were fitted out in the late summer and operated through the year-end servicing this trade. This business, in combination with some other favourable trading patterns, resulted in improved daily earnings for this segment but not enough to offset the impact of the decreased volumes. Revenue from this sector was down 6%.

Shipments of aggregates and construction materials decreased 18% year-over-year and revenues for the sector were down 21% as daily rates dropped.

Fleet Impairment

The domestic marine transportation industry continues to face a significant challenge from over-capacity. With the slower start to the season and the typical mid-season decrease in shipments, all companies were forced to lay ships up due to lack of business. As noted earlier, Algoma had two vessels in cold lay-up at the beginning of the season and brought the ships out only when incremental new business was available later in the year.

We continue to assess the capacity needs and maintenance required on our older vessels. Taking our fleet renewal project into consideration and the expected timing for delivery of new vessels, we have determined that two vessels will not operate in 2017 and have therefore reached the end of their useful lives. We have recorded accelerated depreciation totaling $5,033 in the 2016 fourth quarter.

Algoma assesses the net carrying value of its fleets for impairment on an annual basis. As a result of the competitive pressure on rates and the general decrease in freight volumes, the rate of return we expect to earn on the domestic dry-bulk fleet has decreased and has fallen below our hurdle rate of 9.5%. As a consequence, under IAS 36, the Company has recorded a provision for impairment of the domestic dry-bulk fleet totalling $37,441. This provision has been determined by comparing the discounted value of future cash flows based on a 9.5% discount rate to the current carrying value of the assets. Future cash flows are estimated based on expected cargo volumes and pricing as contained in known customer contracts and reasonable expectations for renewal thereof. We also consider the expected operating cost of the ships, including any significant repair or maintenance costs that will be incurred to enable the ships to continue to operate through the remainder of their estimated lives.

Fleet Renewal

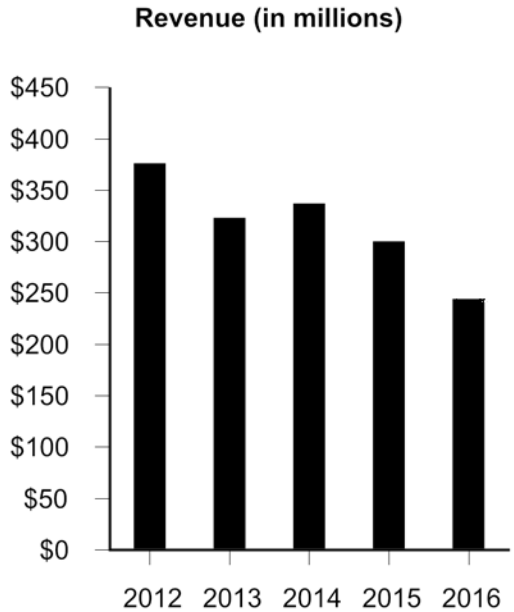
Algoma currently has contracts in place for the construction of two new Equinox Class 650’ self-unloaders and five Equinox Class 740’ self-unloaders. During 2016, the Company invested $124 million in progress payments on these ships. The first 650’ self-unloader was launched in Croatia in December and is scheduled for delivery in the late summer of 2017. The first section of the keel for the second 650’ self-unloader was erected on the slipway immediately after that launch and delivery of that ship is scheduled for early 2018. Construction of the three 740’ self-unloaders to be built in Croatia is at much earlier stages with delivery of those ships not expected until late 2018 or early 2019.

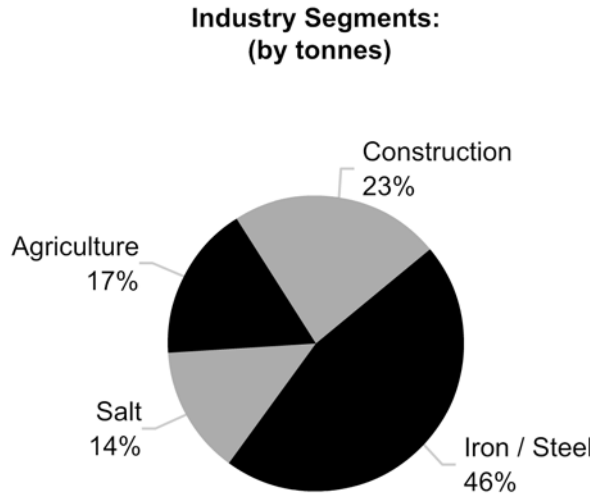
In China, where we have two 740’ self-unloaders under construction, progress is slightly ahead of our early expectations. The first of the 740' self-unloaders is expected to be launched in mid to late February and the ship is expected to reach Canada in time to be in service for the late season surge in demand in 2017. The second ship, which is a few months behind, is expected to be in Canada in time for the 2018 season opening.

As reported last year, a London arbitration panel found in favour of Algoma on all four of the Company’s claims against Nantong Mingde shipyard and ordered that the shipyard return all progress payments made on uncompleted vessels to Algoma. During 2016, Algoma collected all outstanding deposits with related interest in full from the refund guarantee banks that were required to make these payments as a result of the bankruptcy of the shipyard. Although the collection of these amounts eliminates any remaining uncertainty in respect of the Mingde contracts, the Company is well behind its original schedule for fleet renewal.

Over the course of 2016, Algoma monitored the progress of the shipyard’s liquidation with particular attention focused on the disposition of the gearless bulk vessel known as the *G3 Strongfield*. The *G3 Strongfield* had been completed by the shipyard but never delivered to the buyer, G3 Canada Limited who, in 2015, cancelled the contract for non-delivery.

Late in 2016, the Shanghai Maritime Court announced that the *G3 Strongfield* would be put up for auction by the court. Working with G3 Canada Limited, Algoma has now acquired that ship following a second round of the auction held by the Court and we expect to take title to the vessel in China shortly. The ship is now being inspected and fitted out for its delivery voyage to Canada. We expect the vessel will leave China in late April and enter service in the Algoma Bulker Pool in mid-summer.





Domestic Dry-Bulk Financial Review		**2016**		2015		Favourable (Unfavourable)
Revenue	**$**	**244,221**	$	299,553	$	(55,332)
Operating expenses		**(195,869)**		(256,020)		60,151
General and administrative		**(10,074)**		(9,673)		(401)
		38,278		33,860		4,418
Depreciation		**(25,479)**		(29,240)		3,761
Impairment		**(37,441)**		(937)		(36,504)
Loss on foreign currency forward contracts		**(7,536)**		—		(7,536)
Gain on cancellation of shipbuilding contracts		**26,387**		13,567		12,820
Income tax recovery (expense)		**4,462**		(4,571)		9,033
Net (loss) earnings	**$**	**(1,329)**	$	12,679	$	(14,008)
Operating ratio		**97.3%**		98.5%		
Additions to property, plant, and equipment	**$**	**122,305**	$	111,194		
Total assets	**$**	**468,401**	$	479,720		

Revenues for Domestic Dry-Bulk are down 19% compared to 2015, largely as a result of a 19% drop in volumes carried and a corresponding 21% drop in revenue days. As noted above, all major commodity groups suffered lower volumes in 2016. As a result of changing trade patterns, average earnings per day improved almost 5% compared to 2015 but this was not enough to offset the impact of the decline in volumes.

Operating days for the fleet were reduced by almost 24%, reflecting the decrease in volume, the retirement of four vessels, and the long lay-up of two others. The reduction in operating days produced a corresponding decrease in operating expenses.

Fleet reliability improved this year, and at 97.7%, fleet availability was the highest level it has been in the past five years and increased 240 basis points over 2015. The trend to improved fleet availability reflects fewer incidents or ship out of service events as we continue to focus on improved systems and performance across the fleet.

Total operating expenses were down 24%, reflecting several different factors. Direct operating costs for the ships were down 26% as efforts at managing controllable costs reduced direct operating costs per day by 2%. More efficient fuel purchasing in 2016 compared to 2015 resulted in a 36% decrease in fuel cost. On the other hand, voyage costs dropped only 5% despite the 19% drop in volumes as changes in trading patterns resulted in a higher incidence of various fees incurred during voyages.

As noted earlier, fleet reliability improved this year, resulting in a 59% decrease in incident costs. While the reduced operating expenses associated with incidents is a contributor to the profitability of the fleet, even more important for overall profitability is the avoidance of out of service time. In fact, historically speaking, for every $1.00 of direct costs associated with an incident there is a $2.50 opportunity cost from foregone revenue.

Overhead in the division increased 4%, with almost all of this increase related to legal costs incurred to finalize the collection of refunds of progress payments previously made on the Nantong Mingde ships. The business unit also recorded a pre-tax gain of $26,387 as a result of collecting these refunds, including foreign exchange gains on the U.S. funds collected and interest owed on the instalments.

EBITDA for Domestic Dry-Bulk was $38,278, an increase of 13% compared to the prior year. EBITDA is determined as follows:

		2016		2015		Favourable (Unfavourable)
Net (loss) earnings	**$**	**(1,329)**	$	12,679	$	(14,008)
Adjustments to net (loss) earnings:						
Depreciation		**25,479**		29,240		(3,761)
Impairment		**37,441**		937		36,504
Loss on foreign currency exchange contracts		**7,536**		—		7,536
Gain on cancellation of shipbuilding contracts		**(26,387)**		(13,567)		(12,820)
Income taxes		**(4,462)**		4,571		(9,033)
EBITDA	**$**	**38,278**	$	33,860	$	4,418

Outlook

Our focus for 2017 will be on maintaining market share while construction continues on the seven replacement vessels. With three ships expected to join the fleet in 2017, including the *Strongfield,* we expect to begin to realize the improved earnings these ships can deliver. This will lay the ground work for increased business unit earnings, even if market conditions remain challenging.

Early indications for 2017 are more positive than they were in 2016. The Fall 2016 harvest was one of the largest ever, which is usually a good indicator of strong grain movements in the early part of the season. Also, although the winter has not been harsh to date, our customers are predicting more normal salt volumes in 2017. In both Canada and the U.S. there has been discussion of increased spending on infrastructure, which, if followed through on, should be positive for iron and steel, as well as construction materials. Despite these positive signs for volumes, industry capacity remains high and this may cause some continued pressure on freight rates.

Product Tankers

Business Segment and Markets

The domestic Canadian flag product tanker fleet provides safe and reliable transportation of liquid petroleum products throughout the Great Lakes, St. Lawrence Seaway and Atlantic Canada regions. During 2016, the Company also allocated a domestic tanker to international service for a portion of the year. Domestic customers include major oil refiners, leading wholesale distributors and large consumers of petroleum products who demand the highest levels of quality and service.

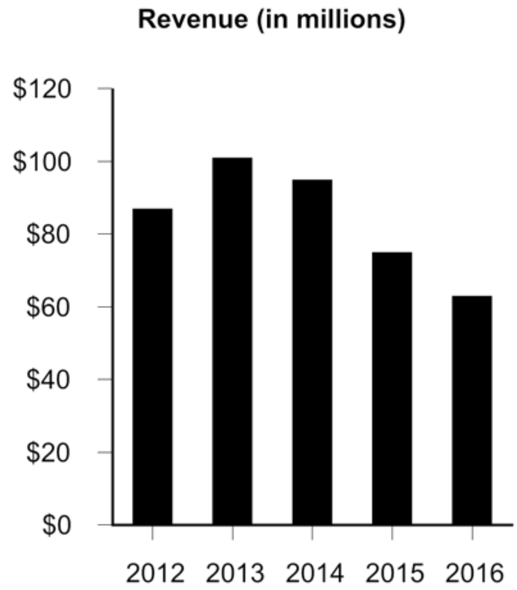
This business unit consists of six double-hull product tankers employed predominantly in domestic Canadian flag service. For the first five months of 2016, one of our domestic tankers was temporarily re-flagged to service international markets. This tanker would otherwise have been laid up until spring due to lack of domestic demand.

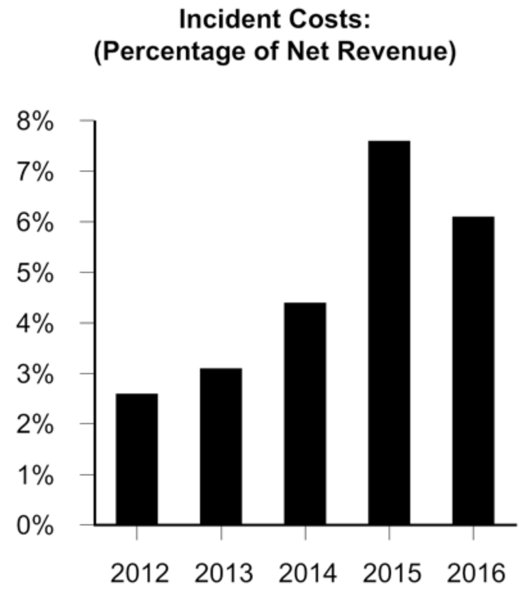
The Company's primary domestic product tanker customer is Imperial Oil. During 2015 and 2016, Imperial Oil instituted a number of changes to its production and logistics processes, the net result of which was a lessening of demand for capacity on the east coast. To respond to this change, in addition to seeking a temporary international deployment for one ship, Algoma has actively sought out new customers within the core Great Lakes and St. Lawrence Seaway markets. In addition, the fleet was reduced by one vessel that was at the end of its productive life and the ship was sold for recycling during the year.

Vessel operating days decreased by 7% in 2016 compared to 2015 as a result of the decline in volumes and the retirement of one ship. Revenues for the fleet are down 16% or $12,331 reflecting the reduction in operating days and the reduced daily rate earned while one ship was in international service. In addition to volumes carried for our key customer, a significant number of operating days were taken up by other operators on an out-chartered basis.

Fleet Impairment

Competition in our domestic market is having the effect of reducing Canadian rates and thereby impacting the expected returns earned on Canadian tanker assets. As a result of this competitive pressure on freight rates, the rate of return we expect to earn on the Product Tanker fleet has decreased and has fallen below our hurdle rate of 9.5%. As a consequence, under IAS 36 the Company has recorded a provision for impairment of the product tanker fleet totalling $5,220. This provision has been determined by comparing the discounted value of future cash flows generated by the fleet based on a 9.5% discount rate to the current carrying value of the assets. Future cash flows are estimated based on expected cargo volumes and pricing as contained in known customer contracts and reasonable expectations for renewal thereof and management's expectations for the availability and pricing of new work. We also consider the expected operating cost of the ships, including any significant repair or maintenance costs that will be incurred to enable the ships to continue to operate through the remainder of their estimated lives.





Product Tankers Financial Review		**2016**		2015		Favourable (Unfavourable)
Revenue	**$**	**63,004**	$	75,335	$	(12,331)
Operating expenses		**(41,238)**		(46,519)		5,281
General and administrative		**(2,511)**		(1,521)		(990)
		19,255		27,295		(8,040)
Depreciation		**(9,031)**		(10,161)		1,130
Impairment		**(5,220)**		—		(5,220)
Income taxes		**(634)**		(5,224)		4,590
Net earnings	**$**	**4,370**	$	11,910	$	(7,540)
Operating ratio		**83.8%**		77.3%		
Additions to property, plant, and equipment	**$**	**1,845**	$	459		
Total assets	**$**	**110,110**	$	124,616		

Revenue for Product Tankers was down 16% on a combination of fewer days due to the retirement of one ship (down 7%) and lower rates, caused mostly by having one vessel in international service for five months (down 9%). The revenue impact of having a ship in international service is itself a combination to two factors. Ships in international service are typically on time charter and as a result the Company does not incur pass-through costs for fuel and other voyage expenses as we do when the ships operate in Canada. In addition, the daily rate of earnings in international service is lower than current Canadian rates.

Operating expenses for the business unit fell 11% compared to the prior year. Reduced pass-through costs on international voyages and on domestic out-charter business, along with the elimination of the operating costs of the retired ship were partially offset by increased labour costs and the cost of some mechanical failures. Fleet availability for Product Tankers was 97.2%, an improvement of 510 basis points compared to the prior year. Improved reliability for the fleet partially offset the loss of available days resulting from the retirement of the *Algosar.*

General and administrative costs increased 65% compared to the prior year. Overhead charged to our Product Tankers business unit increased as the business unit now operates a larger pro-rata share of the total number of vessels on which allocations of general and administrative costs are based. In addition, overhead for the prior year is net of an insurance recovery related to legal fees that had been expensed in previous years.

EBITDA for Product Tankers was $19,255, a decrease of 29% from 2015 for the reasons set out above. EBITDA is determined as follows:

		2016		2015		Favourable (Unfavourable)
Net earnings	**$**	**4,370**	$	11,910	$	(7,540)
Adjustments to net earnings:						
Depreciation		**9,031**		10,161		(1,130)
Impairment		**5,220**		—		5,220
Income taxes		**634**		5,224		(4,590)
EBITDA	**$**	**19,255**	$	27,295	$	(8,040)

Outlook

We have recently negotiated the key terms of a new agreement with our major customer through which we have secured an improved guarantee of revenue days, but we have discounted rates compared to what we earned in the past. We expect a high level of utilization in 2017; however, rates, and hence earnings for the business unit will be lower than we experienced to date.

Ocean Dry-Bulk Shipping

Business Segment and Markets

The Company’s interests in Ocean Dry-Bulk shipping consist of four ocean-going self-unloading vessels and a joint interest in two other vessels. The four self-unloaders and one of the ships in which we have a joint interest are part of the world’s largest pool of ocean-going self-unloaders (the "Pool"), which at the end of 2016 totalled 22 vessels. In 2016, two Pool members withdrew ships from the Pool to manage the overall vessel supply. In addition, one Pool member withdrew from the Pool, selling their five vessels to other members. Algoma purchased two of these vessels outright and purchased a joint interest in a third vessel.

Algoma shares in the Pool’s commercial results and reports a pro-rata share of Pool revenue and voyage costs (in operating expenses) for our four 100% owned ships. Vessel operating expenses incurred directly by our 100% owned subsidiary, Algoma Shipping Ltd. are also recorded in operating expenses. Earnings from partially owned ships are included in our joint venture, Marbulk.

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.

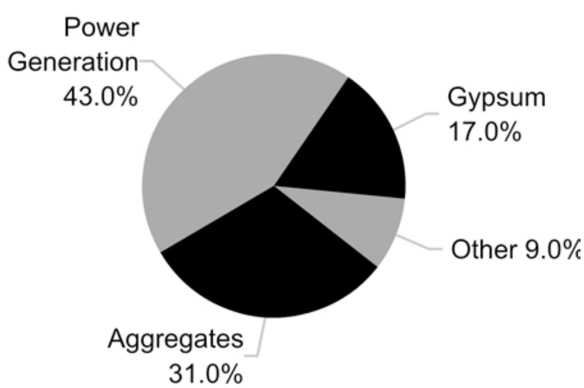
The economic recovery remained soft in 2016 and overall tonnage shipped decreased 12%, returning to approximately 2014 volumes after a strong 2015. The weakness in 2016 was primarily in coal and limestone shipments. Time charter revenues made up 4% of Pool revenues in 2016 compared to 10% in 2015. A number of Pool vessels were returned by charterers, which contributed to an excess supply of vessel capacity at the beginning of 2016. Time charter revenues arise when Pool vessels are chartered out, generally for trans-shipment projects for transferring various bulk commodities between shore facilities and other ocean-going vessels using their specialized self-unloading equipment. The tonnage carried by these vessels is not considered to be Pool volume and therefore is not reflected in the volume figures below.

Construction product transportation, consisting primarily of crushed stone, limestone and granite products is the largest market segment served by the Pool. Tonnages shipped decreased 18% compared to 2015. Coal transportation for power generation, the second largest sector served by the Pool, decreased 17% over 2015. The third largest market segment served by the Pool is gypsum, which continued the trend of last year, increasing 2% over 2015 levels. Shipments of other commodities were down marginally.

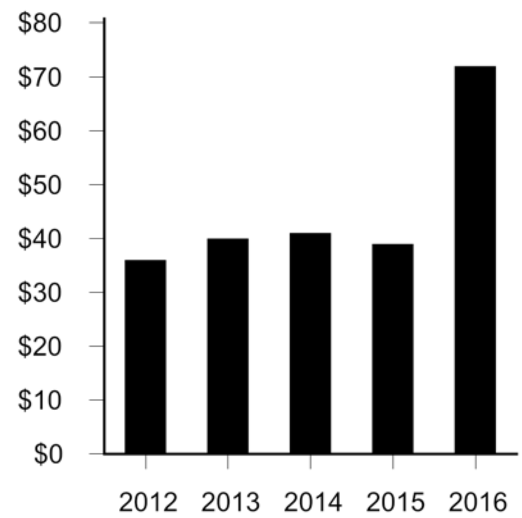
As a result of a reduction in out-charter opportunities, the Pool's capacity (supply) became out of balance with expected demand for 2016 and the Members reached an agreement under which two older ships would be retired early in return for a buy-out payment. Over the course of 2016, a third ship was also removed, resulting in a net reduction in the Pool from 25 to 22 ships. Algoma's Ocean Dry-Bulk business unit owns 4.5 Pool ships and shared in approximately 24% of overall Pool earnings in 2016.

Vessel technical management for our Ocean ships is outsourced to international ship management companies. Technical experts employed by the Company maintain oversight responsibilities for the ocean shipping fleet. The Company and its ship managers continue to focus on productivity, operational excellence, safety, security and environmental protection.

Industry Segments (by tonnes)



Revenue (in millions)



Ocean Dry-Bulk Shipping Financial Review	**2016**	2015	Favourable (Unfavourable)
Revenue	**$ 72,179**	$ 38,605	$ 33,574
Operating expenses	**(43,682)**	(24,683)	(18,999)
General and administrative	**(1,067)**	(1,085)	18
	27,430	12,837	14,593
Depreciation	**(12,393)**	(5,506)	(6,887)
Income tax recovery (expense)	**445**	(261)	706
Earnings from joint venture	**3,489**	5,875	(2,386)
Net earnings	**$ 18,971**	$ 12,945	$ 6,026
Operating ratio	**79.2%**	81.0%	
Additions to property, plant, and equipment	**$ 124,714**	$ 4,204	
Additions to property, plant, and equipment by joint venture	**$ 15,883**	$ —	
Total assets	**$ 182,997**	$ 75,375	

Revenues for Ocean Dry-Bulk, reflecting the pro-rata share of Pool revenues generated by our four 100% owned ships, grew 87%. This growth reflects the purchase of two vessels previously owned by another Pool Member at the beginning of 2016. Gross revenues of the Pool decreased 18% compared to 2015 due to decreasing volumes. Revenues for the Pool are earned in U.S. dollars. The average U.S./CAD exchange rate for 2016 was 3% higher than it was for 2015, offsetting a portion of the decrease in Pool revenues as reported by Algoma in Canadian dollars.

Operating expenses increased 77%. This increase reflects the operating costs of the two new vessels and the increase in the Canadian dollar reported value of our operating expenses, all of which are incurred in U.S. dollars.

Depreciation expense increased 56% reflecting primarily the acquisition cost of the two additional ships. The *Algoma Vision* and the *Algoma Value* were acquired in January 2016 for a total cost of $121,812. Other capital expenditures in the year related to capitalized regulatory dry-dock expenses incurred on the *Algoma Value*.

Earnings from joint venture reflect Algoma's 50% interest in the Marbulk joint venture. At year-end, Marbulk owned one Pool vessel and a 50% interest in a non-Pool ocean class vessel operating in European markets. Earnings for 2015 included a gain on the sale of a previous Pool vessel following the early termination of a charter arrangement and the sale of the vessel. Prior to the sale of that vessel, Marbulk owned two Pool vessels.

In 2016, Marbulk acquired the *Venture* and sold the *Eastern Power* after reaching an agreement with other Members that resulted in the ship's Pool interest being bought out. For most of 2016, Marbulk generated Pool earnings from one vessel and therefore the decrease in the year is primarily due to the reduction in the number of vessels generating Pool earnings.

EBITDA for Ocean Dry-Bulk was $33,179, an increase of 62% compared to the prior year. EBITDA is determined as follows:

	2016	2015	Favourable (Unfavourable)
Net earnings	**$ 18,971**	$ 12,945	$ 6,026
Adjustments to net earnings:			
Depreciation	**12,393**	5,506	6,887
Joint venture depreciation	**2,108**	1,761	347
Joint venture interest expense	**706**	—	706
Joint venture foreign exchange gain	**(554)**	—	(554)
Subsidiary income tax expense (recovery)	**(445)**	261	(706)
EBITDA	**$ 33,179**	$ 20,473	$ 12,706

Outlook

The outlook for 2017 is uncertain with both positive and negative influences related, particularly, to a lack of clarity on changes that might take place affecting trade policy in the U.S., Pool capacity remains higher than warranted by current customer demand and discussions amongst Pool Members on vessel retirement policies has continued. Subsequent to the year-end, two further ships have been removed from the Pool for 2017 (one permanently) and as a result of these additional retirements, Algoma's overall share of the Pool earnings is now approximately 26%.

Real Estate

Algoma Central Properties Inc. ("ACP") is the discontinued real estate segment of the Company. ACP owns and manages properties in Sault Ste. Marie, St. Catharines, and until recently, in Waterloo, Ontario. In the fourth quarter of 2015, the Company decided to sell its real estate portfolio and focus its strategic efforts in marine shipping. During 2016, the Company sold five buildings from a portfolio comprising 15 properties in total. Efforts are on-going to sell all remaining properties except for the building housing the Company's head office in St. Catharines.

In Sault Ste. Marie, ACP owns and manages Station Mall, the largest mall in the region, 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 Waterfront Hotel and Conference Centre. Subsequent to the year-end, an agreement was reached to sell 289 Bay Street and negotiations are underway for the sale of Station Mall. Marketing of the remaining three buildings is expected to begin before the end of the first quarter and a sale is expected to occur in 2017.

In St. Catharines, ACP sold Ridley Square and Martindale Business Centre in 2016. The Company now owns and manages three office buildings for which negotiations are underway and a sale is expected to occur in the first half of 2017. The Company also has one remaining commercial plaza that it expects to sell in 2017.

During 2016, the Company's three office buildings in Waterloo, known collectively as the Waterloo Technology Campus, were sold.

Real Estate Financial Review	**2016**	2015	Favourable (Unfavourable)
Revenue	**$ 32,565**	$ 33,709	$ (1,144)
Operating expenses	**(19,482)**	(19,533)	51
General and administrative	**(3,461)**	(2,212)	(1,249)
	9,622	11,964	(2,342)
Depreciation	**(1,955)**	(5,544)	3,589
Income taxes	**(2,033)**	(1,718)	(315)
Net earnings from operations	**5,634**	4,702	932
Net earnings from sale of properties	**20,307**	—	20,307
Net earnings	**$ 25,941**	$ 4,702	$ 21,239
Average occupancy	**92.3%**	92.7%	
Additions to properties	**$ 5,839**	$ 5,844	
Total assets	**$ 61,023**	$ 82,665	

Results for Real Estate include the operating earnings of buildings along with the gain realized on the sale of the five properties. Results for the properties sold during the year are recognized up to the date of closing of the sale. The Real Estate segment is presented as a discontinued operation in light of the Company's decision to liquidate the portfolio and exit the business.

Revenue from Real Estate included in discontinued operations was down 3% and improved occupancy and revenue from certain properties partially offset the decrease in revenue resulting from the sale of buildings during the year.

Operating expenses were essentially unchanged for the year, as certain costs associated with the decision to exit the business offset the reduction in expenses caused by the sale of buildings.

Effective November 2015, the Company ceased to record depreciation on the buildings held for sale. Depreciation expense for 2016 is limited to the amortization of costs relating to tenant leasing costs, improvements and allowances that are amortized over the term of each respective tenant's lease.

The Company realized an after-tax gain on the sale of the five buildings of $20,307. As a result of these sales, the total assets of the discontinued business at December 31, 2016 were $61,023. As noted above, subsequent to year-end the Company opted to retain its St. Catharines head office and, as a consequence, that property will be reclassified from assets held for sale to property, plant, and equipment in the first quarter of 2017. The net book value of that building at December 31, 2016 was $5,067.

Global Short-Sea Shipping

Business Segment and Markets

In late 2015, the Company introduced its strategic intent to enter the global short-sea shipping market, focusing on niche markets featuring specialized equipment or services and lacking an existing dominate player. In January 2016, we announced that we would be making an investment to acquire a 50% interest in a to-be established business focused on pneumatic cement carrying vessels. The joint venture established following that announcement is named NovaAlgoma Cement Carriers ("NACC").

With an initial investment in January of $24,210, we acquired a 50% interest in three vessels operating in Southeast Asia and in two on-going construction projects. Our initial expectation was that we would double the size of this fleet over three years.

Opportunities in the sector have proven to be more attractive than anticipated and as a consequence our investment in the sector has accelerated. During the second quarter, we identified and acted on an opportunity to acquire an existing cement carrier operating in the Caribbean and took delivery of the first of the vessels under construction, which began operating in the Mediterranean shortly thereafter. In the fourth quarter, the second ship under construction was delivered and began operations in Southeast Asia.

At year-end, we had three additional ships in various stages of construction, including our first North American vessel, which is contracted to serve a major new Canadian cement manufacturer when their plant opens later this year. We also are working on multiple other opportunities that are at various stages of development. We have now invested $69 million and, with our partner, have established a sizable and credible competitor in this fragmented market.

Cement shipping is a regionalized market with generally smaller vessels servicing large manufacturing plants and distributing cement powder in support of infrastructure investment in those regions. It is generally not a trans-ocean business. Vessels are typically smaller in size than most dry-bulk vessels and operate in a similar manner to a tanker. Pneumatic cement carriers utilize a compressor and pump system to load and unload product via a large diameter hose. This operation is very clean, with essentially no discharge to the atmosphere. NACC vessels are highly specialized and can load into on-shore facilities, including directly into cement tank trucks.

The cement transport business is typically conducted under the terms of time charters or dedicated contracts of affreightment. Most vessels are 100% dedicated to a single plant or manufacturer and are a key cog in their overall logistics structure. Our strategy is focused on consolidation of the market and renewal of the global fleet of vessels to achieve more efficient operations and a better environmental footprint.

Global Short Sea Shipping Financial Review		**2016**
Revenue	**$**	**17,983**
Operating expenses		**(7,313)**
General and administrative		**(576)**
		10,094
Depreciation		**(3,522)**
Interest		**(1,276)**
Foreign exchange gain		**142**
Net earnings	**$**	**5,438**
Company share of earnings	**$**	**2,719**
Amortization of vessel purchase price allocation		**(177)**
	$	**2,542**
Operating ratio		**63.5%**
Additions to property, plant, and equipment	**$**	**45,589**
Total assets	**$**	**68,656**

We report our interest in NACC as a joint venture and 50% of the earnings of the business, net of certain purchase accounting adjustments, is included with earnings from joint ventures in our statement of earnings.

Revenue for the year was $17,983, generated by the seven vessels that were in operation during 2016. All revenues are earned from subsidiaries of major global cement companies.

Operating expenses amounted to $7,313 for the year. Operating expenses include only those costs incurred after the ships enter operation in the case of the ships acquired during the year. General and administrative expenses, comprising mostly commercial commissions and professional fees, totalled $576. As the company grows, we expect NACC will add staff to support its operations. For 2016, most support activities were provided by the two partners.

Generally, it is NACC’s practise to acquire vessels using bank financing to fund a portion of the purchase price. During 2016, the company paid interest of $1,276 in connection with these financings.

Our share of earnings from the joint venture was $2,719, from which we deducted amortization of purchase price increments totaling $177, for net earnings of $2,542.

Outlook

Opportunities in the cement shipping business are being created as the cement majors consolidate and review their logistics operations. A large share of the current global fleet is owned by cement manufacturers and we believe that many of them are reaching retirement age. That presents opportunities to replace manufacturer-owned ships with an outsourced service that we believe NACC is well positioned to provide.

Consolidated

Financial Review	**2016**	2015	Favourable (Unfavourable)
Revenue	**$ 379,404**	$ 413,493	$ (34,089)
Operating expenses	**(280,789)**	(327,222)	46,433
General and administrative	**(29,733)**	(26,313)	(3,420)
	68,882	59,958	8,924
Depreciation of property, plant, and equipment	**(46,903)**	(44,907)	(1,996)
Gain on shipbuilding contracts	**26,387**	13,567	12,820
Impairment expense	**(42,661)**	(937)	(41,724)
Interest expense	**(9,824)**	(13,280)	3,456
Interest income	**1,142**	1,270	(128)
Foreign currency gain	**3,505**	3,789	(284)
Unrealized loss on foreign currency exchange contracts	**(7,536)**	—	(7,536)
Income tax recovery (expense)	**8,351**	(4,266)	12,617
Earnings of joint venture	**6,031**	5,875	156
Net earnings from continuing operations	**$ 7,374**	$ 21,069	$ (13,695)

General and Administrative Expenses

General and administrative expenses in 2016 were $3,420 higher than the amount for 2015. The increase is due primarily to higher compensation and professional fees related to a number of projects undertaken during the year.

A portion of general and administrative costs that excludes costs associated with the Corporate office is allocated to the Domestic Dry-Bulk and the Product Tanker segments.

Depreciation of Property, Plant, and Equipment

In 2016, the depreciation recorded on vessels increased by $1,996. The increase was due primarily to the addition of two vessels in the Ocean Dry-Bulk Shipping segment less lower depreciation in the Domestic Dry-Bulk segment due to the end of service lives of certain vessels.

Gain on Shipbuilding Contracts

In both 2016 and 2015, the Company recognized gains relating to the dispute with Nantong Mingde Heavy Industries Co. Ltd. (the "Shipyard") involving four shipbuilding contracts.

The Company entered into contracts with the Shipyard in 2010 to build six Equinox Class bulk freighters to replace ships in the Company's domestic dry-bulk fleet. Only two of these vessels were delivered and the Company cancelled the four remaining contracts as a result of the bankruptcy of the Shipyard in 2015. All monies paid by the Company against these shipbuilding contracts were supported by refund guarantees issued by Chinese state banks. Refunds of all instalments and related interest were received in 2016. As a result of the cancellations, the Company recognized a gain of $13,567 in 2015 resulting from the recognition of a foreign exchange gain, net of the expensing of certain capitalized costs. In 2016, upon collection of the refunds, the Company recognized further foreign exchange gains and related interest income and wrote off capitalized interest on the construction in process.

Impairment Expense

At the end of each reporting period, the Company reviews its long-lived assets to determine whether there are any indication that those assets have suffered impairment, or if an impairment loss previously recognized requires reversal.

For the year ended December 31, 2016 impairment expense relating to vessels in the Domestic Dry-Bulk and Product Tanker segments of $42,661 was recognized. Further information on the impairments is contained in the respective business units' financial reviews.

Interest Expense

Interest expense consists of the following:

	2016	2015	Increase (Decrease)
Interest expense on borrowings	**$ 15,153**	$ 14,960	$ 193
Interest on employee future benefits, net	**1,051**	1,049	2
Amortization of financing costs	**939**	951	(12)
Interest capitalized	**(7,319)**	(3,680)	(3,639)
	$ 9,824	$ 13,280	$ (3,456)

Total interest paid on borrowings remained approximately the same in 2016 when compared to 2015 as the average borrowing remained approximately the same in both years. Net interest expense decreased by $3,456 in 2016 when compared to 2015 due to an increase in the amount of interest capitalized on shipbuilding projects.

The interest capitalized on vessels under construction relates to interest incurred on payments made to various shipyards for the construction of Equinox vessels. The increase for 2016 relates to additional instalments made on shipbuilding contracts.

Foreign Currency Translation and Unrealized Loss on Foreign Currency Exchange Contracts

	2016	2015	Increase (Decrease)
Gain on long-term debt	**$ 7,747**	$ —	$ 7,747
Gain on return of capital from foreign investee	**1,831**	1,575	
Total (loss) gain on U.S. cash	**(2,033)**	20,623	(22,656)
Portion of the gain on U.S. cash recorded in gain on cancellation of shipbuilding contracts	**—**	(8,689)	8,689
Portion of the gain (loss) on U.S. cash recorded in Other Comprehensive Income	**921**	(9,720)	10,641
Loss on shipbuilding contracts receivable	**(3,870)**	—	(3,870)
Loss on loan to joint venture	**(1,091)**	—	(1,091)
	3,505	3,789	(540)
Loss on foreign currency exchange contracts	**(7,536)**	—	(7,536)
	$ (4,031)	$ 3,789	$ (8,076)

The gain on long-term debt relates to a U.S. dollar borrowing in early 2016 that was repaid later in the year. During the period of the borrowing, the Canadian dollar strengthened against the U.S. dollar resulting in a gain on the repayment.

The gain on the return of capital from a foreign investee in 2016 and 2015 reflects the gains on U.S. dollar cash returned from the Company’s non-controlled foreign investee.

The Company designates a portion of its U.S. dollar cash balances as a hedge against certain U.S. dollar purchase commitments relating to the Equinox Class project. In June 2015, the cash hedge against the U.S. dollar purchase commitments with the Nantong Mingde Shipyard became ineffective as a result of the cancellation of the shipbuilding contracts. Gains and losses on the translation of the U.S. dollar cash from the date on which the respective hedges were designated to the date on which the hedge ceased to be so designated, were initially recorded in other comprehensive earnings.

As of July 1, 2015, the Company re-designated its U.S. dollar cash balances as a hedge against its U.S. dollar purchase commitments for certain new shipbuilding contracts. Gains and losses on the translation of the U.S. dollar cash from the date on which these respective hedges were designated to the end of the financial reporting period are being recorded in other comprehensive earnings.

The loss on the shipbuilding contract receivable relates to the translation loss on the amount due from the Shipyard from the date the receivable was designated as a financial asset to the date the amounts were collected.

In January 2016, the Company provided U.S. financing to a joint venture for the purpose of purchasing a vessel. The U.S. dollar loan was converted to Canadian dollars later in the year resulting in a foreign exchange loss due to the strengthening of the the Canadian dollar.

The Company has significant commitments due for payment in U.S. dollars and Euros. Foreign exchange forward contracts are utilized by the Company on purchase commitments to assist in managing its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet. The loss on the foreign currency exchange contracts relates to the contracts being marked to market as a result of the fluctuation in the period of their fair value. The contracts were deemed to be ineffective for hedge accounting purposes as the maturity dates of the contracts ceased to coincide with the expected date of the payments to the shipyard as production schedules provided by the shipyards changed.

Income Tax Provision

The income tax provision on earnings from continuing operations decreased from an expense of $4,266 for 2015 to a recovery of $8,351 in 2016. Below is a reconciliation of the provision for the two years.

		2016		2015
Combined federal and provincial statutory income tax rate		**26.5%**		26.5%
(Loss) earnings before income tax from continuing operations and net earnings of joint ventures	**$**	**(7,008)**	$	19,460
Expected income tax recovery (expense)	**$**	**1,857**	$	(5,157)
Change resulting from:				
Effect of items that are not deductible (taxable)		**3,205**		(28)
Foreign tax rates different from statutory rate		**4,298**		1,624
Non-recoverable withholding taxes		**(898)**		(834)
Other		**(111)**		129
Actual tax recovery (expense)	**$**	**8,351**	$	(4,266)

The increase in the items that are not deductible or taxable was due to the foreign exchange gains the Company recognized in 2016 on the return of the instalments from the Shipyard of which a portion is not taxable.

Earnings from the Company's foreign subsidiaries are taxed in jurisdictions which have nil income tax rates. The 2016 pre-tax earnings of the foreign subsidiaries increased significantly when compared to 2015 primarily as a result of the addition of two vessels.

The Canadian statutory rate for the Company for both 2016 and 2015 was 26.5%. 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 taxable and non-taxable items that may or may not be included in earnings and changes to income tax provisions related to prior periods.

Comprehensive Earnings

The comprehensive earnings for 2016 were $33,572 compared to $20,191 for 2015. The increase of $13,381 was due to improvements in net earnings from operations, higher gains realized on employee future benefit plans and an increase in the unrealized gain on hedging instruments. These increases were partially offset with foreign exchange losses on the translation of financial statements of foreign operations.

The increase in the gains for employee future benefits net actuarial gains after income tax in 2016 compared to 2015 was $7,963 and was due primarily to an increase in investment returns on assets held by the retirement plans.

The Company has hedged a portion of its future commitments on shipbuilding contracts with U.S. cash. The cumulative exchange differences on translation of cash held in foreign currency for 2016 were $3,100 compared to gains of $300 for 2015. Exchange differences accumulated in the hedge reserve will be reclassified to property, plant, and equipment when the payments to the supplier are made or to earnings if a hedge is deemed to be ineffective.

In 2016, $2,101 (2015 - $1,339) was reclassified to property, plant, and equipment and in 2015, $13,444 was reclassified to earnings from other comprehensive earnings.

The Company has a net investment in foreign subsidiaries at December 31, 2016 of approximately U.S. $223,000. The unrealized loss relating to the translation of the financial statement of foreign operations in 2016 was $9,529 compared to a gain of $8,079 in 2015. The changes year over year are due to the fluctuations of the Canadian dollar when compared to the U.S. dollar.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

		2016		2015		Increase (decrease)
Net earnings from continuing operations	**$**	**7,374**	$	21,069	$	(13,695)
Operating activities	**$**	**90,124**	$	57,751	$	32,373
Investing activities	**$**	**214,876**	$	109,613	$	105,263
Financing activities	**$**	**4,725**	$	24,016	$	(19,291)
Cash from discontinued operations	**$**	**53,971**	$	6,970	$	47,001

Operating Activities

Net cash generated from operating activities in 2016 increased by $32,373 when compared to 2015.

The increase in cash from operating activities in 2016 resulted primarily from less cash required for corporate income tax instalments compared to 2015 due to a lower instalment base for remitting 2016 current taxes and refunds from prior years that were received in 2016. Also a contributing factor to the increase was an improvement in cash from operations of the business segments.

Investing Activities

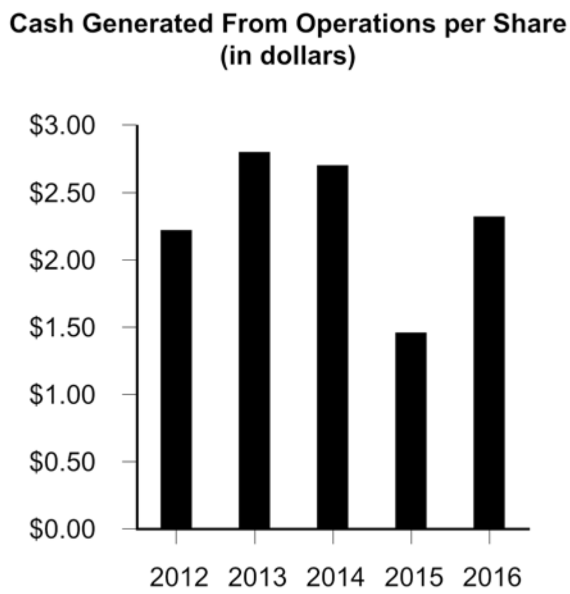
Net cash used in investing activities of $214,876 is net of the refunds received on the shipbuilding contracts of $89,460. Total spending of $304,969 in 2016 was primarily for the purchase of two ocean self-unloading bulkers, the *Algoma Vision* and *Algoma Value*, an investment to acquire a 50% interest in the ocean self-unloading bulker, the *Venture*, instalments on new Equinox Class self unloaders, investments in NACC and costs related to capitalized dry-docking costs on certain vessels.

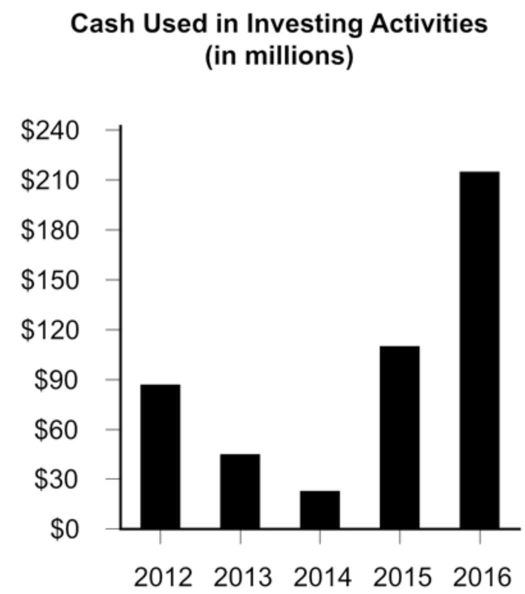
Net cash used in investing activities in 2015 include payments related to the Equinox Class vessels, life extensions and capitalized dry-dockings costs on certain other vessels.

Retired vessels were sold in each of 2016 and 2015 for net proceeds of $633 and $3,687, respectively.

Financing Activities

Included in the net cash generated from financing activities in 2016 is interest received from the Shipyard on the settlement of certain shipbuilding contracts. Included in both periods are payment of interest on borrowings and the payment of dividends to shareholders. Dividends were paid to shareholders at $0.28 per common share in both 2016 and 2015.





Capital Resources

The Company has cash on hand of $130,039 at December 31, 2016. Available credit facilities along with projected cash from operations for 2017 are expected to be more than sufficient to meet the Company'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. In July 2016, the Company renewed and amended its revolving credit Bank Facility (the "Facility"). The new Facility is for a four-year term and comprises a $50 million Canadian dollar and a $100 million U.S. dollar senior secured revolving bank credit facility provided by a syndicate of seven banks. The Facility bears interest at rates that are based on the Company’s ratio of senior debt to earnings before interest, taxes, depreciation and amortization and ranges from 150 to 275 basis points above bankers’ acceptance or LIBOR rates. The Company 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 Company’s real estate assets and vessels that are not wholly owned are not directly encumbered.

At December 31, 2016, the Company had $49,423 Canadian dollar and $100,000 U.S. dollar undrawn and available under existing credit facilities.

The Company is subject to certain covenants including ones with respect to maintaining defined financial ratios and other conditions under the terms of the Bank Facility and the Notes. As at December 31, 2016, the Company was in compliance with all of its covenants.

Labour Update

The majority of our shipboard employees, along with hourly employees of Algoma Ship Repair and the Delta Hotel in Sault Ste. Marie are unionized. Details of the status of the various union agreements are provided below.

Shipboard Managers

All Captains and Chief Engineers of the Company are non-unionized.

Navigation and engineering officers are represented by six separate bargaining units of the Canadian Merchant Service Guild. Four of these agreements expired on May 31, 2016 and two other agreements expired on July 31, 2016.

Unlicensed Employees

There are three unlicensed bargaining units of shipboard employees. The Seafarers' International Union (SIU) represents two unlicensed employee bargaining units and the Canadian Maritime Union, a unit of Unifor, represents one unlicensed employees bargaining unit.

The collective bargaining agreement with one bargaining unit of the SIU will expire on July 31, 2018. The second collective bargaining agreement with the SIU expired on May 31, 2016.

The collective agreement with Unifor expired on March 31, 2015.

The bargaining for renewal of all collective agreements with all groups whose contracts have expired has commenced and will continue into 2017.

Algoma Ship Repair

The collective agreement between Algoma Ship Repair and its hourly paid workers, who are represented by the United Steelworkers, expires on May 31, 2018.

Algoma Central Properties

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 will expire on July 7, 2018.

Contingencies and Commitments

For information on contingencies and commitments, please refer to Notes 28 and 29 of the consolidated financial statements for the years ending December 31, 2016 and 2015. There have been no significant changes in the items presented since December 31, 2015.

Transactions with Related Parties

The Company'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 2016 and 2015.

Three-Month Results Ending December 31, 2016 and 2015

	2016	2015	Favourable (Unfavourable)
Revenues			
Domestic Dry-Bulk	**$ 86,550**	$ 92,081	$ (5,531)
Product Tankers	**19,609**	16,426	3,183
Ocean Dry-Bulk Shipping	**21,233**	10,663	10,570
	$ 127,392	$ 119,170	$ 8,222
Operating (loss) earnings net of income tax			
Domestic Dry-Bulk			
Operating earnings, net of income tax	**$ 16,465**	$ 9,044	7,421
Impairment expense	**(27,519)**	(689)	(26,830)
Gain on cancellation of shipbuilding contracts	**—**	(95)	95
Unrealized loss on foreign currency contracts	**(5,539)**	—	(5,539)
	(16,593)	8,260	(24,853)
Product Tankers			
Operating earnings, net of income tax	**3,076**	2,120	956
Impairment expense	**(3,837)**	—	(3,837)
	(761)	2,120	(2,881)
Ocean Dry-Bulk Shipping	**5,692**	2,849	2,843
Global Short Sea Shipping	**416**	—	416
Corporate Office	**(3,847)**	(2,343)	(1,504)
Segment operating (loss) earnings,net of income tax	**(15,093)**	10,886	(53,713)
Not specifically identifiable to segments			
Net (loss) gain on translation of foreign-denominated monetary assets and liabilities	**(19)**	558	(577)
Interest expense, net	**(1,738)**	(3,765)	2,027
Interest income	**273**	324	(51)
Income tax (recovery) expense	**(3,640)**	970	(4,610)
Net (loss) earnings from continuing operations	**$ (20,217)**	$ 8,973	$ (56,924)
Basic (loss) earnings per common share	**$ (0.52)**	$ 0.23	$ (0.75)

The Company is reporting revenues for the 2016 fourth quarter of $127,392 compared to $119,170 for the fourth quarter of 2015.

The segment loss after income taxes was $15,093 for the 2016 fourth quarter compared to earnings of $10,886 for 2015. Included in the 2016 quarterly results are impairment expenses after income taxes of totalling $31,356. Excluding this from the 2016 fourth quarter results, segment earnings for the 2016 quarter would have been $16,263.

The Domestic Dry-Bulk segment results for the 2016 fourth quarter excluding the two unusual items noted in the table above were ahead of the previous years fourth quarter due primarily to favourable incidents experience and a decrease in overhead expenses. The results for the Product Tanker segments for the fourth quarter of 2016 excluding the impairment provision was ahead of the 2015 due to an increase in customer demand. The Ocean

Dry-Bulk Shipping segment earnings were significantly ahead of 2015 due primarily to the addition of two vessels in 2016.

The net loss and basic loss per share from continuing operations was $20,217 and $0.52, respectively, compared to earnings of $8,973 and $0.23, respectively, for the same period last year.

Critical Accounting Estimates

The Company's significant accounting policies are described in Note 3 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 Company's reported financial position or results of operations.

Employee Future Benefits

The Company 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 Company in calculating such amounts. Those assumptions are disclosed in Note 21 to the Company’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 21 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 Company’s reported employee future benefit obligations and future expense.

Property, Plant, and Equipment and Impairment

The Company reviews the depreciation periods of property, plant, and equipment on a regular basis for changes in estimated useful lives. The Company also reviews for impairment indicators on a quarterly basis, and at a minimum on an annual basis, whether there are any signs of impairment or a reversal of a previously recognized impairment in accordance with the Company’s accounting policy.

Change in Accounting Estimates

Employee Future Benefits

For 2016, the Company decreased its assumed rate of compensation increases for purposes of calculating the current service cost that is included in the net benefit cost incurred from 3.5% per year to 3.0% for 2016 to 2020 and to 2.5% thereafter. As a result of the change, the employee future benefit obligation was reduced by $1,900. Assumed rate of compensation increases are based on historical increases, the current compensation policies, labour agreements and economic forecasts.

Depreciation

The accounting policy for vessels 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 tonne less costs incurred to ready the vessel for occupancy. The remaining useful life and residual value of the vessels are reviewed at least annually and depreciation for remaining future periods is adjusted accordingly.

The review of the remaining useful life of the vessels is based on their age, the expected cost of dry-docking and the daily operating costs. As a result of the review in 2016 certain domestic dry-bulk vessel lives were shortened and the Company has recorded accelerated depreciation totalling $5,033 in the fourth quarter.

New Accounting Standards Not Yet Applied

Leases

In January 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Adoption of the new standard will be required effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities.

Additional disclosure is required under the standard including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgements and estimates. The standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning in the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of the IASB’s project on financial instruments and it includes the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final version of IFRS 9 supercedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted.

Disclosure Initiative

IAS 7 Statement of Cash Flows has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been revised to incorporate amendments issued by the IASB in September 2014 and December 2015. The amendments include requiring a full gain or loss to be recognized when a transaction between an investor and its associate or joint venture involves assets that constitute a business. The amendments also require that a partial gain or loss be recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business. The effective date of the amendments has been deferred indefinitely.

The Company is currently evaluating the impact of these new standards.

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 Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), have evaluated the operating effectiveness of the Company'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 Company's internal controls over financial reporting as of December 31, 2016. Based on this assessment, the CEO and CFO have concluded that the Company's internal controls over financial reporting are operating effectively as of December 31, 2016. Management determined that there were no material weaknesses in the Company's internal controls over financial reporting as of December 31, 2016. There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2016, 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, 2016, an evaluation of the effectiveness of the design and operation of the Company'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 Company's disclosure controls and procedures are effective as of December 31, 2016, to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Derivative Financial Instruments

The Company has hedged part of its investments in foreign subsidiaries against its foreign denominated long-term debt. At December 31, 2016, the net investment in U.S. dollar foreign subsidiaries was $223,000 and the amount used as a hedge was $75,000 U.S. dollars.

The Company has significant commitments due for payment in U.S. dollars and Euros. The Company utilizes foreign exchange forward contracts and U.S. cash as a hedge on purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding 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 Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2016 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €97,170 and a fair value loss of $12,592 (December 31, 2015 - nil), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $97,148 and fair value gain of $5,055 (December 31, 2015 - nil). The contracts mature at various dates in 2017 and 2018.

Return on Capital Employed (ROCE)

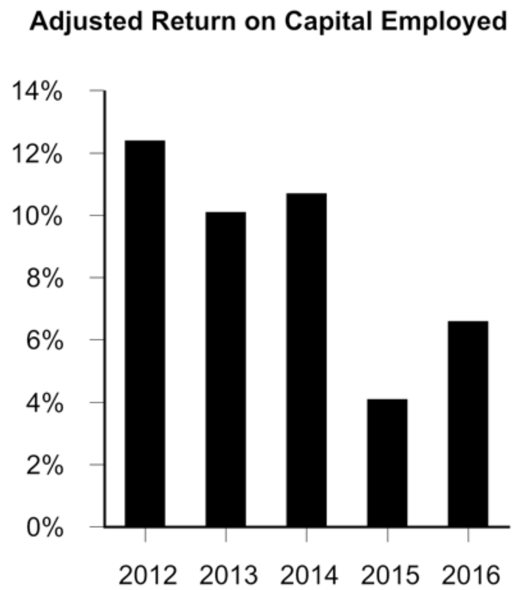
The Company's Board of Directors reviews the ROCE target on an annual basis.

The returns on capital employed over the last five years of the Company ranged from 2.5% to 8.2%.

The Company 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, AROCE is one of the metrics for purposes of determining incentive compensation.

The AROCE for 2016 was 6.6% versus 4.1% for 2015 and it has averaged 8.8% over the five years ended December 31, 2016. The increase in the AROCE for 2016 was due primarily to an increase in the after tax operating earnings of the business segments.

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



Contractual Obligations

The table below provides aggregate information about the Company's contractual obligations at December 31, 2016 that affect the Company's liquidity and capital resource needs.

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Long-term debt including equity component	$ —	$ 67,555	$ 175,705	$ —	$ 243,260
Capital asset commitments	142,797	111,856	—	—	254,653
Dividends payable	527	—	—	—	527
Interest payments on long-term debt	13,424	19,606	15,090	—	48,120
Employee future benefit payments	150	300	150	—	600
	$ 156,898	$ 199,317	$ 190,945	$ —	$ 547,160

The capital asset commitments relate to the contracts in place for the construction of two new Equinox Class 650' self-unloaders, five Equinox Class 740' self-unloaders, and the acquisition and construction of future vessels in the cement carrier joint venture. Two Equinox self-unloaders are expected to be delivered in 2017.

Risks and Uncertainties

The following section describes both general and specific risks that could affect the Company's financial performance. The risks described below are not the only risks facing the Company. Additional risks and uncertainties that are not currently known or that are currently considered immaterial may also materially and adversely affect the Company'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 challenge of recruiting new employees into the marine industry, competition for skilled labour from other sectors, and the limited number of cadet berths 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 Company 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 Company'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 Company believes it offers fair and competitive compensation packages and does not expect service interruptions.

Partnering

The Company operates a portion of its business jointly with third parties. Partnerships are seen by the Company 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 Company 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 Company 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 Company's high performance standards are applied consistently. Agents not performing to the expectations of the Company could have a significant impact on the reputation and financial results of the Company. The Company takes great care in ensuring the performance of parties selected to perform outsourced services on its behalf match its high quality standards. The Company deals with leading international companies for these services.

Service Failure

The Company'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 Company 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 Company 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 Company 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 Company's ability to replace existing assets and expand the business. The Company has remaining commitments with two shipyards of $257,601 for the construction of seven Equinox Class vessels with delivery dates currently estimated to extend through 2018. These vessels are important to the modernization and service capacity of its fleet and to the business strategy of the Company. The Company has a knowledgeable supervision team in place at the shipyards to monitor the quality of construction and to assist the shipyards in moving to a successful completion of the contracts. In addition, the Company holds refund guarantees from the shipyards' bankers for instalments made by the Company.

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 has been secured with credit facilities expiring on various dates through July 2021, including a revolving bank facility provided by a syndicate of seven leading banks that will meet the cash requirements for 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 Company 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 Company 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.

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

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

Environmental

Environmental protection continues to be a dominant topic on the world legislative agenda and is a primary focus of the Company throughout its operations. Environmental issues such as aquatic invasive species, pollutant air emissions (SO_x and NO_x), greenhouse gases and cargo residues/wash waters are being scrutinized and regulated worldwide. A change in environmental legislation could have a significant impact on the Company's future operations and profitability.

The Company's fleet continues to monitor fuel sulphur levels in accordance with Emission Control Area (ECA) and Fleet Averaging requirements and remains in compliance with all requirements. The Company's highly efficient Equinox Class ships are equipped with exhaust gas scrubbers designed to satisfy the air emission rules. The Company'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 in the future.

Emission Control Area rules also require mandatory and significant reduction in NO_x emissions for new engines installed after January 1, 2016. Cost and availability of this 'Tier III NO_x' compliant equipment for new vessels constructed after 2016 may represent a risk to the Company.

Monitoring, reporting and verification (MRV) of greenhouse gases (GHGs) is in the planning stages at the International Maritime Organization (IMO) and mandatory GHG reporting is anticipated to be implemented in the near future by Canada and the United States. There is potential for mandatory GHG reduction targets or market-based measures such as fuel levies or carbon taxes to be applied to the marine industry in the future. If implemented, such measures could have an impact on operating costs that cannot be estimated at this time.

Canada is a signatory to the IMO Ballast Water Convention. The Canadian government is currently developing amendments to its own ballast water regulations to implement the international ballast water discharge standards in Canadian waters. A portion of the Company's vessels also remain subject to United States regulations that will require installation of ballast water treatment systems during future dry dockings. There are presently no U.S. Coast Guard approved ballast water treatment systems available and furthermore there are no technologies proven to work in the unique operating conditions of the Great Lakes. The current imposition of unachievable and discriminatory ballast water regulations by the U.S. on Canadian vessels presents an economic and regulatory risk to the Company. The Company and other stakeholders continue to express their concern that the domestic industry needs a unique solution that provides a single, achievable regulatory approach for all domestic vessels operating in Canadian waters.

Regulatory

A change in governmental policy could impact the ability to transport certain cargos. A policy change could threaten the Company's competitive position and its capacity to offer efficient 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 Company 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 Company 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.

Climate Change

The Company's domestic dry-bulk vessels and product tankers operate primarily in the Great Lakes and the St. Lawrence River. Winter conditions during the December to March periods and rising or declining water levels in ports in which the vessels load and unload have the effect of increasing or reducing operating days and cargo sizes, respectively, and this affects the profitability of these vessels.

Harsh winter conditions may result in more severe than normal ice coverage on the Great Lakes and the St. Lawrence Seaway, resulting in delays in the opening of the canals in the system and the movement of cargo.

Drops in water levels in the Great Lakes and the St. Lawrence, which the Company has no control over, could have a significant impact on the future operations and profitability of the domestic dry-bulk vessels and product tankers. In mid-November 2016, water levels on the Great Lakes were above the long-term average for the second year in a row after a decade of below average water levels. According to the US Army Corp of Engineers October 2016 hydrology report, precipitation over the Great Lakes region was above average over the previous twelve months and, in their latest six month forecast, the Corps predicts water levels to track above the long-term average and to be similar to those experienced during the same period in 2016.

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

Foreign Exchange

The Company operates internationally and is exposed to risk from changes in foreign currency rates. The foreign currency exchange risk to the Company results primarily from changes in exchange rates between the Company's reporting currency, the Canadian dollar, and the U.S. dollar. The Company's exchange risk on earnings of foreign subsidiaries is diminished due to both cash inflows and outflows being denominated in the same currency.

The Company has significant commitments due for payment in U.S. dollars and Euros. The Company mitigates the risk associated with the U.S. dollar payments principally through utilizing U.S. cash as a hedge on purchase commitments required under ship building contracts with foreign shipbuilders and foreign exchange forward contracts. The risks associated with exposure to the Euro are managed with foreign exchange forward contracts.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from its customers. The Company 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 Company from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any increase in the regulatory funding requirements for the Company'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 Company 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 Company is a party to judicial, arbitration, or similar proceedings either as claimant or as respondent. Although the Company will take any actions it deems necessary to represent its interests in these proceedings, the ultimate outcomes of such proceedings are outside of the control of the Company. 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 Company.

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 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 review the financial statements in this report and recommended that they be approved by the Board of Directors.

Ken Bloch Soerensen
President and Chief Executive Officer
February 22, 2017

Peter D. Winkley, CPA, CA
Vice President, Finance and Chief Financial Officer
February 22, 2017

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, 2016 and December 31, 2015 and the consolidated statements of earnings, consolidated statements of comprehensive earnings, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 judgement, 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, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
February 22, 2017

Consolidated Statements of Earnings
Years ended December 31, 2016 and 2015
(In thousands of dollars, except per share data)

	Notes		2016		2015
Revenue	31	$	**379,404**	$	413,493
Expenses					
Operations	31		**280,789**		327,222
General and administrative			**29,733**		26,313
			310,522		353,535
			68,882		59,958
Depreciation of property, plant, and equipment	15		**(46,903)**		(44,907)
Gain on shipbuilding contracts	8		**26,387**		13,567
Impairment expense	15		**(42,661)**		(937)
Interest expense	9		**(9,824)**		(13,280)
Interest income			**1,142**		1,270
Foreign currency gain	10		**3,505**		3,789
Unrealized loss on foreign currency exchange contracts	20		**(7,536)**		—
			(7,008)		19,460
Income Tax Recovery (Expense)	11		**8,351**		(4,266)
Net Earnings of Joint Ventures	7		**6,031**		5,875
Net Earnings from Continuing Operations			**7,374**		21,069
Net Earnings from Discontinued Operations	13		**25,941**		4,702
Net Earnings		$	**33,315**	$	25,771
Basic and Diluted Earnings per Share					
Continuing operations	24	$	**0.19**	$	0.54
Discontinued operations		$	**0.67**	$	0.12
		$	**0.86**	$	0.66

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings
Years ended December 31, 2016 and 2015
(In thousands of dollars)

	2016	2015
Net Earnings	**$ 33,315**	$ 25,771
Other Comprehensive Earnings (Loss)		
Items that may be subsequently reclassified to net earnings:		
Unrealized (loss) gain on translation of financial statements of foreign operations	**(9,529)**	8,079
Unrealized gain on hedging instruments, net of income tax	**3,100**	300
Foreign exchange gains on purchase commitment hedge reserve, net of income tax, transferred to:		
Net earnings	**—**	(13,444)
Property, plant, and equipment	**(2,101)**	(1,339)
Items that will not be subsequently reclassified to net earnings:		
Employee future benefits actuarial gain, net of income tax	**8,787**	824
	257	(5,580)
Comprehensive Earnings	**$ 33,572**	$ 20,191

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets
December 31, 2016 and 2015
(In thousands of dollars)

	Notes	December 31 2016	2015
Assets			
Current			
Cash		**$ 130,039**	$ 210,562
Accounts receivable	**12**	**52,172**	47,744
Income taxes recoverable		**612**	13,461
Assets of discontinued operations held for sale	**13**	**61,023**	82,665
Other current assets	**14**	**13,159**	10,823
		257,005	365,255
Employee Future Benefits	**21**	**13,517**	2,406
Property, Plant, and Equipment	**15**	**660,251**	513,140
Goodwill and Intangible Asset	**16**	**11,591**	7,910
Investment in Joint Ventures	**7**	**79,405**	14,395
Other Assets	**17**	**14,244**	85,699
		$ 1,036,013	$ 988,805
Liabilities			
Current			
Accounts payable and accrued charges	**18**	**$ 76,416**	$ 49,594
Current portion of long-term debt	**22**	**—**	1,448
Income taxes payable		**515**	—
Liabilities of discontinued operations held for sale	**13**	**15,830**	10,218
Other current liabilities	**19**	**1,297**	527
		94,058	61,787
Other Long-Term Liabilities	**20**	**11,275**	—
Deferred Income Taxes	**11**	**25,435**	42,602
Employee Future Benefits	**21**	**23,140**	23,258
Long-Term Debt	**22**	**240,555**	242,548
		300,405	308,408
Commitments	**28**		
Shareholders' Equity			
Share Capital	**24**	**8,344**	8,344
Contributed Surplus		**11,917**	11,917
Convertible Debentures	**23**	**4,630**	4,630
Accumulated Other Comprehensive (Loss) Earnings	**25**	**(3,845)**	4,685
Retained Earnings		**620,504**	589,034
		641,550	618,610
		$ 1,036,013	$ 988,805

See accompanying notes to the consolidated financial statements.

Approved by the Board

Harold S. Stephen, Director

Duncan N. R. Jackman, Director

Consolidated Statements of Changes in Equity
December 31, 2016 and 2015
(In thousands of dollars)

	Share Capital	Contributed Surplus and Convertible Debentures	Accumulated Other Comprehensive Earnings (Loss) (Note 25)	Retained Earnings	Total Equity
Balance at December 31, 2014	$ 8,319	$ 16,549	$ 11,089	$ 571,142	$ 607,099
Net earnings	—	—	—	25,771	25,771
Dividends	—	—	—	(9,917)	(9,917)
Other comprehensive (loss) earnings	—	—	(6,404)	824	(5,580)
Conversion of debentures	25	(2)	—	—	23
Refundable dividend tax on hand	—	—	—	1,214	1,214
Balance at December 31, 2015	$ 8,344	$ 16,547	$ 4,685	$ 589,034	$ 618,610
Net earnings	—	—	—	33,315	33,315
Dividends	—	—	—	(10,632)	(10,632)
Other comprehensive (loss) earnings	—	—	(8,530)	8,787	257
Balance at December 31, 2016	$ 8,344	$ 16,547	$ (3,845)	$ 620,504	$ 641,550

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015
(In thousands of dollars)

	Notes	2016	2015
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Net earnings from continuing operations		**$ 7,374**	$ 21,069
Earnings of joint ventures	**7**	**(6,031)**	(5,875)
Returns received from joint ventures		**6,515**	6,666
Items not affecting cash			
Depreciation of property, plant, and equipment	**15**	**46,903**	44,907
Gain on cancellation of shipbuilding contracts	**8**	**(26,387)**	(13,567)
Impairment of vessels	**15**	**42,661**	937
Other	**26**	**7,902**	13,168
Net change in non-cash operating working capital	**26**	**8,994**	9,664
Income taxes		**2,343**	(17,743)
Employee future benefits paid		**(150)**	(1,475)
Net cash generated from operating activities		**90,124**	57,751
Investing			
Additions to property, plant, and equipment	**31**	**(220,784)**	(113,300)
Investment in joint ventures	**7**	**(84,185)**	—
Proceeds from shipbuilding contracts	**8**	**89,460**	—
Proceeds on sale of property, plant and equipment		**633**	3,687
Net cash used in investing activities		**(214,876)**	(109,613)
Financing			
Interest paid		**(15,008)**	(14,569)
Interest received		**22,626**	—
Proceeds of long-term debt		**70,305**	—
Repayments on long-term debt		**(71,753)**	1,448
Dividends paid		**(10,895)**	(10,895)
Net cash used in financing activities		**(4,725)**	(24,016)
Net Change in Cash from Continuing Operations		**(129,477)**	(75,878)
Cash Provided from Discontinued Operations	**13**	**53,971**	6,970
Net Change in Cash		**(75,506)**	(68,908)
Effects of Exchange Rate Changes on Cash Held in Foreign Currencies		**(5,017)**	22,574
Cash, Beginning of Period		**210,562**	256,896
Cash, End of Period		**$ 130,039**	$ 210,562

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation (the “Company”) is incorporated in Canada and is listed on the Toronto Stock Exchange. The address of the Company's registered office is 63 Church St, Suite 600, St. Catharines, Ontario, Canada. The consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 comprise the Company, its subsidiaries and the Company's interest in associated and jointly controlled entities.

The principal subsidiaries are Algoma Shipping Ltd., Algoma Tankers International Inc., Algoma International Shipholdings Ltd., Algoma Tankers Limited and Algoma Central Properties Inc. The principal jointly controlled entities are Marbulk Canada Inc. (50%) ("Marbulk") and NovaAlgoma Cement Carriers Limited (50%) ("NACC"). In addition, Algoma Shipping Ltd. is a member of an international pool arrangement (the “Pool”), whereby revenues and related voyage expenses are distributed to each Pool member based on the earnings capacity of the vessels. At December 31, 2016, Algoma Shipping Ltd.’s proportionate share of the Pool was 20.0% (2015 - 10.0%). The Company holds indirectly a further 4.5% (2015 - 3.7%) in the Pool through Marbulk.

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 Company's Canadian flag fleet consists of fourteen self-unloading dry-bulk carriers, six gearless dry-bulk carriers and six product tankers. The Company also has seven construction contracts for Equinox Class vessels for domestic dry-bulk service.

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Company's 20 vessel fleet. The dry-bulk vessels carry cargoes of raw materials such as 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 the operational management of four vessels owned by other ship owners.

The Product Tankers marine transportation segment includes ownership and management of the operational and commercial activities of six Canadian flag tanker vessels operating on the Great Lakes, the St. Lawrence Seaway and the east coast of North America.

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

The Global Short Sea Shipping segment includes a 50% interest, through a joint venture, in a fleet of seven cement carriers. The joint venture also has construction contracts for three additional cement carriers. The cement carrier vessels support infrastructure projects worldwide.

In addition to the marine businesses, the Company also owns and manages commercial real estate in Sault Ste. Marie and St. Catharines, Ontario which is currently held for sale.

The nature of the Company'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 most 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 those for the remaining three quarters of the year.

2. STATEMENT OF COMPLIANCE

The Company has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board (“IASB”). The accounting policies have been applied consistently within the consolidated financial statements.

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

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 22, 2017.

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 Company:

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

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

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

Interests in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.

The Company has assessed its interests in joint arrangements in order to classify them as either joint operations or joint ventures. When making the assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. The Company has concluded that its interests in the joint arrangements are joint ventures and has accounted for these using the equity method.

Materials and Supplies

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

Property, Plant, and Equipment

Vessels

Vessels include dry-bulk carriers, product tankers and vessels under construction. Vessels, including vessels under construction, are measured at cost less accumulated depreciation and accumulated impairments. Cost includes expenditures that are directly attributable to the acquisition up to the time the asset is ready for use and include installation costs, mobilization costs to the operating location, and borrowing costs on qualifying assets. In addition, assets under construction are measured at cost less accumulated impairment. 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 Company initially estimates to be 25 to 30 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 tonne less costs incurred to ready the vessel for disposal. 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 afloat, 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 two and a half to five 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 Company's business plans.

A portion of the cost of acquiring a 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 costs comprise the actual costs incurred. Dry-docking costs may include the labour cost to effect replacements and repairs, the cost of parts and materials used, cost of travel, lodging and supervision of the Company's personnel, and the cost of third party personnel to oversee a dry-docking, netted with any revenue which may be earned during the dry-docking period.

Impairment of Long-Lived Assets

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

If any such indication exists, the recoverable amount 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 Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount 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 amount 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 amount. An impairment loss is recognized immediately in net earnings.

Where an impairment loss subsequently reverses in whole or in part, the carrying value of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, 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 arising from an acquisition is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the business 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 amount 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 statements of earnings. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Operating Segments

The Company’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 Company’s performance and is therefore the chief operating decision-maker.

Revenue Recognition

Revenues from marine operations are recognized pro-rata over the term of a voyage and are measured at the fair value of consideration received or receivable.

Revenue is only recognized when the amount and stage of completion can be measured reliably, it is probable that economic benefits will flow to the Company, and the costs incurred and costs to complete the transaction can be measured reliably.

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 Company 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.

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

The assets and liabilities of the Company's foreign operations, whose functional currency is not the Canadian dollar, 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. 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 Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 Company maintains defined benefit pension plans, defined contribution pension plans and other, unfunded, post-employment benefits including certain retirement obligations, life insurance and health care.

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, if any. The liability includes the present value of the obligations as determined by discounting the estimated future required payments 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 Consolidated Statements 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 future health care costs.

Net interest consists of the interest cost on the defined benefit obligation and the expected return on defined benefit plan assets. Net interest is determined by applying the discount rate to the net benefit obligation or asset. The net interest income/expense is included in interest expense on the Consolidated Statements of Earnings.

Actuarial gains and losses arising from the employee future benefit plans are recognized immediately in other comprehensive earnings. Past service costs are recognized in earnings at the earlier of when the plan amendment or curtailment occurs or when the Company recognizes the related restructuring costs.

The Company'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 current and deferred tax.

Current tax

Current tax is based on taxable earnings for the period. Taxable earnings may differ from earnings as reported in the Consolidated Statements 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 Company'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 income. 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 Company 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 Company becomes a party to the contractual provisions of the instrument.

The Company'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 Company's designation of such instruments.

The Company 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 Company 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 accounts receivable, are measured at amortized cost using the effective interest method, less any impairment.

Other financial liabilities

Other financial liabilities, including accounts payable and accrued charges, dividends payable, other long-term liabilities 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.

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.

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 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 Company, including its interests in joint arrangements, may enter into a variety of derivative financial instruments to manage its exposure to changing fuel prices, interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

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

The Company has elected to apply hedge accounting to its net investment in foreign subsidiaries with foreign denominated debt and its purchase commitments for shipbuilding contracts with foreign denominated cash and forward currency contracts.

At inception of the hedge relationship, the Company 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 Company documents whether the hedging instrument is effective in offsetting the changes in cash flows of the hedged item attributable to the hedged risk.

The hedge gains or losses are recognized in other comprehensive earnings to the extent the hedging relationship is effective. The hedging gain or loss relating to the ineffective portion is recognized immediately in net earnings.

Comprehensive Earnings

Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in foreign operations having a functional currency other than Canadian dollars, changes in the fair market value of derivative instruments designated as cash flow hedges net of amounts transferred out of comprehensive earnings, unrealized gains and losses on the foreign currency hedges, and the actuarial gains or losses on employee benefit plans. The components of comprehensive earnings or loss are disclosed in the Consolidated Statements of Comprehensive Earnings.

Accumulated other comprehensive earnings or loss is included in the Consolidated Balance Sheets.

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 JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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 Company evaluates the carrying values of the long-lived assets which include property, plant, and equipment (made up primarily of vessels), goodwill, and real estate to determine if events have occurred that would require a modification of their carrying values. The valuation of long-lived assets, excluding goodwill, is reviewed quarterly based on events and changes in circumstances that could indicate that the carrying value of the assets might not be recovered. In assessing the recoverability of the long-lived assets, the Company reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand, and general market conditions. Goodwill is tested for impairment annually.

Judgement is used when determining the grouping of assets to identify their cash generating units (CGUs) for the purposes of testing for impairment. The Company has determined that the appropriate levels for CGU groupings for assessing impairment are as follows:

1. At the self-unloader and bulker fleet levels for the domestic dry-bulk segment.
2. At the fleet level for the product tanker segment, excluding the bunkering vessel.
3. The bunkering vessel.
4. At the fleet level for the ocean shipping segment.
5. At the property level for real estate assets.

Goodwill is tested for impairment at the lowest level within the entity at which the goodwill is monitored, being the operating segment level.

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 Company to make various estimates including future freight rates, earnings from the vessels, and discount rates. The carrying values of the Company’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 about the future experience change, an impairment of property, plant, and equipment may be indicated.

Market valuations from leading independent and internationally recognized shipbrokers 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.

Judgement is required in determining the useful lives and residual values of long-lived assets. 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 tonne less any costs expected to be incurred to prepare the vessel for scrapping. The useful lives and residual value of the vessels are reviewed at least each financial year-end.

Provisions

The Company recognizes provisions when it has a present obligation, legal or constructive. The amount recognized is the Company'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.

Fair Value of Purchase Price Allocation

Business acquisitions are recognized initially at cost, which includes purchase price and other costs directly attributable to the purchase and allocated based on fair value which involves estimation. Joint ventures are accounted for using the equity method which reflects the Company's share of the increase or decrease of the post-acquisition earnings and other movements in the joint venture's equity.

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 Company's ability to utilize the underlying future tax deductions against future taxable income before they expire.

The Company is subject to taxation in several jurisdictions. Significant judgement 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 Company may maintain 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. The 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 Company 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, analysis of current market conditions, and input from actuaries and other consultants.

Costs of the program 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.

5. NEW ACCOUNTING STANDARDS NOT YET APPLIED

Leases

In January 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Adoption of the new standard will be required effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities.

Additional disclosure is required under the standard including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgements and estimates. The standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning in the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of the IASB’s project on financial instruments and it includes the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final version of IFRS 9 supercedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted.

Disclosure Initiative

IAS 7 Statement of Cash Flows has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been revised to incorporate amendments issued by the IASB in September 2014 and December 2015. The amendments include requiring a full gain or loss to be recognized when a transaction between an investor and its associate or joint venture involves assets that constitute a business. The amendments also require that a partial gain or loss be recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business. The effective date of the amendments has been deferred indefinitely.

The Company is currently evaluating the impact of these new standards.

6. BUSINESS ACQUISITION

On January 20, 2016, the Company entered into a new business venture with Nova Marine Holdings SA ("Nova") of Lugano, Switzerland to create a specialized global fleet of pneumatic cement carriers to support infrastructure projects worldwide. The Company, through a foreign subsidiary, owns 50% of the cement carrier business, which is named NovaAlgoma Cement Carriers Limited ("NACC").

Under the terms of the transaction, the Company acquired a 50% interest in an existing fleet owned by Nova, comprising three operating pneumatic cement carriers and two additional vessels under construction, both of which have since been delivered.

The investment in the cement carrier business was completed for a total consideration of U.S. $22,914, of which U.S. $16,664 was paid on closing, plus U.S. $6,250 paid upon delivery of the fourth and fifth vessels. In addition to the initial acquisition and the delivery of the fourth and fifth vessels, the Company invested a further U.S. $23,308 in connection with the acquisition of two additional vessels, advances for construction of three other vessels, and advances for general working capital requirements.

Under the terms of the agreement, the Company also issued guarantees of ship mortgages totalling U.S. $9,568.

The allocation of the initial cash consideration of $24,210 (U.S. $16,664) for accounting purposes is as follows:

Cash	$	1,083
Other current assets		157
Property, plant, and equipment		35,957
Accounts payable and accrued charges		(1,158)
Long term debt		(13,683)
Total identifiable assets		22,356
Goodwill		1,854
Total cash consideration paid	$	24,210

7. JOINT VENTURES

The Company has a 50% interest in Marbulk Canada Inc., ("Marbulk") which owns and operates ocean-going vessels and participates in an international commercial arrangement, and a 50% interest in NovaAlgoma Cement Carriers Limited, ("NACC") which owns and operates pneumatic cement carriers to support infrastructure projects worldwide.

The Company also has a 50% interest in Seventy-Five Corporate Park Drive Ltd. which owns an office building and has been reclassified as an asset held for sale.

The revenues, expenses and net earnings of the joint ventures for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Marbulk	**NACC**	Marbulk	NACC
Revenue	**$ 25,220**	**$ 17,983**	$ 34,622	$ —
Operating expenses	**(13,808)**	**(7,313)**	(19,282)	—
Gain on sale of vessels	**314**	**—**	482	—
General and administrative	**(628)**	**(576)**	(640)	—
Depreciation	**(4,216)**	**(3,522)**	(3,482)	—
Interest expense	**(1,412)**	**(1,276)**	—	—
Foreign exchange gain	**1,108**	**142**	—	—
Earnings before income taxes	**6,578**	**5,438**	11,700	—
Income tax recovery	**400**	**—**	50	—
Net earnings	**$ 6,978**	**$ 5,438**	$ 11,750	$ —
Company share of net earnings	**$ 3,489**	**$ 2,719**	$ 5,875	$ —
Amortization of vessel purchase price allocation	**—**	**(177)**	—	—
	$ 3,489	**$ 2,542**	$ 5,875	$ —

The Company's total share of net earnings of the jointly controlled operations for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Marbulk Canada Inc.	**$ 3,489**	$ 5,875
NovaAlgoma Cement Carriers Limited	**2,542**	—
	$ 6,031	$ 5,875

The assets and liabilities of the joint ventures at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Marbulk	**NACC**	Marbulk	NACC
Cash	**$ 8,828**	**$ 10,639**	$ 7,958	$ —
Other current assets	**5,166**	**23,331**	2,498	—
Property, plant, and equipment	**37,888**	**159,569**	20,998	—
Deferred tax asset	**140**	**—**	138	—
Other current liabilities	**(2,036)**	**(13,342)**	(2,802)	—
Due to owners	**(28,488)**	**—**	—	—
Long-term debt	**—**	**(47,703)**	—	—
Net assets of jointly controlled operations	**$ 21,498**	**$ 132,494**	$ 28,790	$ —
Company share of net assets	**$ 10,749**	**$ 66,247**	$ 14,395	$ —
Goodwill	**—**	**2,409**	—	—
Company share of joint venture	**$ 10,749**	**$ 68,656**	$ 14,395	$ —

The Company's net investment in the jointly controlled operations at December 31, 2016 and 2015 are as follows:

	2016	2015
Marbulk Canada Inc.	**$ 10,749**	$ 14,395
NovaAlgoma Cement Carriers Limited	**68,656**	—
	$ 79,405	$ 14,395

The Company has outstanding commitments of U.S. $3,255 due within the year relating to the acquisition and construction of future vessels in the NACC joint venture.

8. GAIN ON CANCELLATION OF SHIPBUILDING CONTRACTS

During the year, the Company resolved the dispute with Nantong Mingde Heavy Industries Co. Ltd. (the "Shipyard") involving four shipbuilding contracts. All construction instalments made by the Company were refunded with interest.

Net gains have been recognized in earnings for the years ended December 31, 2016 and 2015 and consist of the following components:

	2016	2015
Foreign exchange gain	**$ 22,092**	$ —
Interest income on instalments	**22,626**	—
Write-off of capitalized costs relating to ship construction	**(18,331)**	(4,406)
Gain on currency on conversion of amounts designated as a purchase commitment hedge of future construction payments	**—**	18,300
Ongoing costs related to the cancellation	**—**	(327)
Gain on cancellation of shipbuilding contracts	**26,387**	13,567
Income tax expense	**(4,065)**	(3,595)
	$ 22,322	$ 9,972

9. INTEREST EXPENSE

The components of interest expense are as follows:

	2016	2015
Interest expense on borrowings	**$ 15,153**	$ 14,960
Amortization of financing costs	**1,051**	1,049
Interest on employee future benefits, net	**939**	951
Interest capitalized on vessels under construction	**(7,319)**	(3,680)
	$ 9,824	$ 13,280

10. NET GAIN ON FOREIGN CURRENCY TRANSLATION

The components of net gain on foreign currency translation are as follows:

	2016	2015
Gain on long-term debt	**$ 7,747**	$ —
Gain on return of capital from foreign subsidiary	**1,831**	1,575
Total (loss) gain on U.S. cash	**(2,033)**	20,623
Portion of the gain on U.S. cash recorded in gain on cancellation of shipbuilding contracts	**—**	(8,689)
Portion of the gain (loss) on U.S. cash recorded in Other Comprehensive Income	**921**	(9,720)
Loss on shipbuilding contracts receivable	**(3,870)**	—
Loss on loan to joint venture	**(1,091)**	—
	$ 3,505	$ 3,789

The Company designates a portion of its U.S. dollar cash balances as a hedge against certain U.S. dollar purchase commitments relating to the Equinox Class project. In June 2015, the cash hedge against the U.S. dollar purchase commitments with the Nantong Mingde Shipyard became ineffective as a result of the cancellation of the shipbuilding contracts (see Note 8).

Gains and losses on the translation of the U.S. dollar cash from the date on which the respective hedges were designated to the date on which the hedge ceased to be so designated, were initially recorded in other comprehensive earnings.

As of July 1, 2015, the Company re-designated its U.S. dollar cash balances as a hedge against its U.S. dollar purchase commitments for certain shipbuilding contracts. Gains and losses on the translation of the U.S. dollar cash from the date on which these respective hedges were designated to the end of the financial reporting period are being recorded in other comprehensive earnings.

See Note 25 for the Company's hedge accounting policies relating to foreign currency translation gains and losses on long-term debt and U.S. cash.

11. INCOME TAXES

The components of the income tax (recovery) expense are as follows:

	2016	2015
Current tax expense	**$ 6,238**	$ 6,576
Deferred tax expense	**(14,589)**	(2,310)
	$ (8,351)	$ 4,266

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

		2016		2015
Combined federal and provincial statutory income tax rate		**26.5%**		26.5%
(Loss) earnings before income tax from continuing operations and net earnings of joint ventures	**$**	**(7,008)**	$	19,460
Expected income tax recovery (expense)	**$**	**1,857**	$	(5,157)
Increase (decrease) resulting from:				
Effect of items that are not deductible (taxable)		**3,205**		(28)
Foreign tax rates different from statutory rate		**4,298**		1,624
Non-recoverable withholding taxes		**(898)**		(834)
Other		**(111)**		129
	$	**8,351**	$	(4,266)

Current and deferred income tax expense recognized in other comprehensive earnings is as follows:

		2016		2015
Unrealized gains on hedging instruments	**$**	**424**	$	2,193
Actuarial gains on employee future benefits		**3,168**		298
	$	**3,592**	$	2,491

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

December 31, 2016		Opening balance		Recognized in earnings		Recognized in other comprehensive earnings		Closing balance
Deferred tax liabilities (assets)								
Partnership profits	$	6,369	$	(6,369)	$	—	$	—
Property, plant, and equipment		43,844		(9,417)		—		34,427
Employee future benefits		(5,307)		(205)		3,168		(2,344)
Foreign exchange differences		(4,262)		90		(591)		(4,763)
Losses for tax purposes		(2,452)		(3,485)		—		(5,937)
Convertible debentures		655		(280)		—		375
Tax allowances, provisions and other		3,755		(78)		—		3,677
	$	42,602	$	(19,744)	$	2,577	$	25,435

December 31, 2015	Opening balance	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax liabilities (assets)				
Partnership profits	$ 11,464	$ (5,095)	$ —	$ 6,369
Property, plant, and equipment	43,997	(153)	—	43,844
Employee future benefits	(5,555)	(50)	298	(5,307)
Foreign exchange differences	(2,324)	(1,555)	(383)	(4,262)
Losses for tax purposes	(4,849)	2,397	—	(2,452)
Convertible debentures	913	(258)	—	655
Tax allowances, provisions and other	3,225	530	—	3,755
	$ 46,871	$ (4,184)	$ (85)	$ 42,602

12. ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	2016	2015
Due from customers	**$ 46,225**	$ 39,700
Accrued revenue on voyages in process	**3,816**	2,406
Government related	**1,439**	1,823
Other	**692**	3,815
	$ 52,172	$ 47,744

13. DISCONTINUED OPERATIONS

In November 2015, the Company announced its decision to sell its investment properties comprising commercial, retail and other buildings. The decision to sell the investment properties is a result of a review of the strategic objectives of the Company and a decision to focus the Company's capital on domestic and international shipping opportunities.

Investment properties held for sale are classified as assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Assets of discontinued operations held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets of discontinued operations held for sale are classified as held for sale when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal group) and its sale is highly probable.

The results of discontinued operations, net of tax, are presented separately from the results of continuing operations in the consolidated statements of earnings. Cash flows from discontinued operations are presented separately from cash flows from continuing operations in the consolidated statements of cash flows.

The operating results from the discontinued operation for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Revenue	**$ 32,565**	$ 33,709
Operating expenses	**(19,482)**	(19,533)
General and administrative and depreciation	**(5,416)**	(7,756)
Gain on sale of properties	**24,396**	—
Earnings before income taxes	**32,063**	6,420
Income taxes	**(6,122)**	(1,718)
Net earnings	**$ 25,941**	$ 4,702

The assets and liabilities of the discontinued operation at December 31, 2016 and 2015 are as follows:

	2016	2015
Accounts receivable	**$ 2,633**	$ 1,730
Materials and supplies	**42**	26
Prepaid expenses	**170**	157
Land and buildings	**58,178**	80,752
Total assets	**$ 61,023**	$ 82,665
Accounts payable and accrued charges	**$ 3,884**	$ 3,867
Income taxes payable	**5,679**	—
Deferred income taxes	**6,267**	6,351
Total liabilities	**$ 15,830**	$ 10,218

Included in total assets is the 63 Church Street office building which houses the Company's head office. On February 1, 2017, the Board of Directors decided to retain the building and not sell it. As a result, the carrying cost of the building will be reclassified from discontinued operations to property, plant and equipment in the 2017 first quarter.

The cash flows from the discontinued operation for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Net cash generated from operating activities	**$ 7,739**	$ 12,814
Net cash used in investing activities	**(3,363)**	(5,844)
Net cash from sale of properties	**49,595**	—
Cash provided from discontinued operations	**$ 53,971**	$ 6,970

In 2016, the Company sold five of its real estate properties. Subsequent to December 31, 2016, conditions were waived on the sale of another property for gross proceeds of $3,800, with an expected close in the coming months.

14. OTHER CURRENT ASSETS

The components of other current assets are as follows:

	2016	2015
Materials and supplies	**$ 8,588**	$ 7,330
Prepaid expenses	**3,913**	3,493
Derivative asset	**658**	—
	$ 13,159	$ 10,823

15. PROPERTY, PLANT, AND EQUIPMENT

Details of property, plant, and equipment are as follows:

Cost	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Balance at January 1, 2015	$ 767,597	$ 211,669	$ 82,532	$ 1,061,798
Additions	111,194	459	4,204	115,857
Disposals	(8,060)	(11,122)	—	(19,182)
Cancellation of shipbuilding contracts (Note 8)	(90,105)	—	—	(90,105)
Fully depreciated assets no longer in use	(6,156)	(961)	(2,180)	(9,297)
Impairment on parts and spares	(7,016)	—	—	(7,016)
Effect of foreign currency exchange differences	(5,349)	(1,442)	16,504	9,713
Balance at December 31, 2015	$ 762,105	$ 198,603	$ 101,060	$ 1,061,768
Additions	122,305	1,845	124,714	248,864
Disposals	(80,337)	(5,375)	—	(85,712)
Fully depreciated assets no longer in use	(13,995)	(2,643)	—	(16,638)
Impairment of vessels under construction	(17,000)	—	—	(17,000)
Effect of foreign currency exchange differences	204	547	(9,904)	(9,153)
Balance at December 31, 2016	$ 773,282	$ 192,977	$ 215,870	$ 1,182,129

Accumulated depreciation	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Balance at January 1, 2015	$ 411,525	$ 85,858	$ 33,689	$ 531,072
Depreciation expense	29,240	10,161	5,506	44,907
Disposals	(5,815)	(10,377)	—	(16,192)
Fully depreciated assets no longer in use	(6,156)	(871)	(2,180)	(9,207)
Impairment on parts and spares	(6,079)	—	—	(6,079)
Effect of foreign currency exchange differences	(2,294)	(680)	7,101	4,127
Balance at December 31, 2015	$ 420,421	$ 84,091	$ 44,116	$ 548,628
Depreciation expense	25,479	9,031	12,393	46,903
Disposals	(77,705)	(4,975)	—	(82,680)
Fully depreciated assets no longer in use	(13,995)	(2,643)	—	(16,638)
Impairment of vessels	20,441	5,220	—	25,661
Effect of foreign currency exchange differences	838	430	(1,264)	4
Balance at December 31, 2016	$ 375,479	$ 91,154	$ 55,245	$ 521,878

Net Book Value	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
December 31, 2015				
Cost	$ 762,105	$ 198,603	$ 101,060	$ 1,061,768
Accumulated depreciation	420,421	84,091	44,116	548,628
	$ 341,684	$ 114,512	$ 56,944	$ 513,140
December 31, 2016				
Cost	$ 773,282	$ 192,977	$ 215,870	$ 1,182,129
Accumulated depreciation	375,479	91,154	55,245	521,878
	$ 397,803	$ 101,823	$ 160,625	$ 660,251

Net book value at December 31, 2016 includes capitalized dry-docking costs of $37,633 (2015 - $35,249) and related accumulated depreciation of $23,148 (2015 - $19,228).

Depreciable assets at December 31, 2016 and 2015 includes progress payments on seven Equinox Class vessels totalling $185,335 (2015 - $58,566). The Company capitalized $7,319 of interest in 2016 (2015 - $725) related to these vessels. The interest rate used for the capitalization of interest is based on the Company's effective rate on long-term debt of 6.34% in both 2016 and 2015.

Depreciation expense for the year ended December 31, 2016 was $46,903. During 2016, a change was made reducing the estimated remaining useful lives of certain domestic dry-bulk vessels resulting in additional depreciation of $5,033.

Subsequent to December 31, 2016, the Company acquired a gearless bulk vessel through an auction held by the Shanghai Maritime Court from the liquidation of the Nantong Mingde Shipyard. The vessel is expected to enter domestic service in mid-summer 2017.

Impairment losses

The Company has seen significant changes in the economic environment resulting in decreased market demand and declining freight rates for the domestic dry-bulk segment, particularly the self-unloading vessels, and the tanker segment. During the fourth quarter of 2016, the Company completed a review of events and circumstances to determine if the carrying amounts of long-lived assets with finite useful lives may be more than their recoverable amounts. The review was based on the multi-year financial and fleet maintenance plan completed during the fourth quarter and future industry growth and rate assumptions for a period covering the useful life of each vessel in the fleet.

As a result of the review, the Company determined that the current carrying values of the domestic dry-bulk fleet and the tanker fleet were impaired. The Company has recognized impairment losses totalling $42,661, of which $17,000 related to domestic dry-bulk vessels under construction, $20,441 related to operating domestic dry-bulk vessels, $3,070 related to product tanker vessels and $2,150 related to the bunkering vessel.

The impairment loss was calculated as the amount by which the carrying value exceeded the net recoverable amount. Net recoverable values were based on value-in-use calculations using discounted cash flow projections to determine the internal rate of return. The Company uses a hurdle rate of 9.5% (2015 - 9.5%) for valuation assessment. The hurdle rate has been derived from the Company's weighted average cost of capital adjusted for taxes and specific risks.

The 2015 impairment losses of $937 were recognized on certain major vessel parts and spares that the Company deemed to be surplus.

16. GOODWILL AND INTANGIBLE ASSET

Goodwill and intangible asset consist of the following:

	Goodwill	Intangible Asset	Total
Balance, December 31, 2015 and 2014	$ 7,910	$ —	$ 7,910
Additions	—	4,225	4,225
Amortization	—	(792)	(792)
Effect of foreign currency exchange differences	—	248	248
	$ 7,910	**$ 3,681**	**$ 11,591**

Goodwill

As part of a business acquisition in 2011, the Company recognized goodwill of $7,910 on the allocation of purchase price, determined as the excess of the fair values of the net tangible and identifiable intangible assets acquired.

Goodwill was assessed for annual impairment as at December 31, 2016 and 2015 and no impairment was determined to exist.

Intangible Asset

The Company has vessels that participate in a self-unloader ocean-going Pool with unrelated parties. In April 2016, other Pool members withdrew certain vessels due to market overcapacity. These vessel owners were compensated for their loss of future earnings resulting from the withdrawal of the vessels. The Company's interest in the Pool increased as a result and its value, which initially was equal to the Company's share of the compensation payable to the other owners, has been recorded as an intangible asset and is being amortized over four years.

The intangible asset was assessed for annual impairment as at December 31, 2016 and no impairment was determined to exist.

17. OTHER ASSETS

Other assets consist of the following:

	December 31			
		2016		2015
Loan receivable from joint venture, interest at 4.98%	**$**	**14,244**	$	—
Capitalized construction payments made to Nantong Mingde Shipyard		**—**		67,369
Interest related to construction payments		**—**		18,330
	$	**14,244**	$	85,699

The Company had claims against Nantong Mingde Heavy Industries Co. Ltd. (the "Shipyard") for the return of instalment payments on cancelled construction contracts totalling U.S. $65,760 as at December 31, 2015.

In 2016, the London UK Arbitration Tribunal hearing the contract disputes involving the shipbuilding contracts found in favour of the Company resulting in a full refund of the instalments with interest.

18. ACCOUNTS PAYABLE AND ACCRUED CHARGES

The components of accounts payable are as follows:

	December 31			
		2016		2015
Due to suppliers and accrued charges	**$**	**47,638**	$	43,271
Accrued instalments on vessel construction		**21,540**		—
Accrued interest on long-term debt		**5,196**		5,356
Commodity taxes payable		**1,105**		502
Other		**937**		465
	$	**76,416**	$	49,594

19. OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

	December 31	
	2016	2015
Dividends payable	**$ 527**	$ 527
Derivative liabilities	**770**	—
	$ 1,297	$ 527

20. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31	
	2016	2015
Derivative liabilities	**$ 8,194**	$ —
Compensation payable to Pool members	**3,081**	—
	$ 11,275	$ —

The Company transacts in forward contracts in an effort to hedge its shipbuilding construction instalments that are denominated in U.S. dollars and Euro currencies.

Prior to the fourth quarter of 2016, the forward contracts were effective for hedge accounting with resulting gains or losses being recognized in other comprehensive income. During the fourth quarter of 2016, hedge accounting ceased when the hedged forecasted transaction was no longer expected to occur within the original time period, therefore resulting in a loss being recognized in consolidated earnings from the inception of the hedging relationship.

A portion of the compensation paid to other Pool members for the retirement of two vessels is payable in annual instalments in future years and has been recorded as an Other Long-Term Liability. The Company's share of the liability related to this compensation as of December 31, 2016 is payable in four equal annual instalments commencing April 1, 2017.

21. EMPLOYEE FUTURE BENEFITS

Plan Descriptions

The Company maintains two funded and one unfunded defined benefit pension plans and two defined contribution pension plans, which together cover all of its non-union employees and certain unionized employees. The majority of shipboard employees belong to pension plans not maintained by the Company.

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 Company also provides other unfunded post-retirement benefits including life insurance and health care to certain employees.

The plans typically expose the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. The Company is not aware of any specific concentrations of risk to which it is exposed.

The Company 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, 2016 and January 1, 2014. The next required valuation for the defined benefit plans will be as of January 1, 2017.

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

	Pension Plans		Other Benefit Plans	
	2016	2015	**2016**	2015
Discount rate used for estimating accrued benefit obligation	**3.9%**	3.9%	**3.9%**	3.9%
Discount rate used for estimating net interest cost included in net benefit cost incurred	**3.9%**	4.7%	**3.9%**	4.7%
Rate of compensation increases	3.0% to 2020, 2.5% thereafter	3.5%	3.0% to 2020, 2.5% thereafter	3.5%
Mortality assumption	CPM 2014 Private Table with 2D Projection	CPM 2014 Private Table with 2D Projection	CPM 2014 Private Table with 2D Projection	CPM 2014 Private Table with 2D Projection

The discount rate assumption is selected with reference to market interest rates on high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.

The Company's growth rate of health care costs was estimated at 5.8% (2015 – 6.0%), 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 2016:

	Increase	Decrease
Service and interest cost	$ 75	$ (70)
Accrued benefit obligation	$ 1,213	$ (1,181)

The accumulated actuarial losses, net of income tax, recognized in other comprehensive earnings are as follows:

	2016	2015
Opening balance	**$ (16,626)**	$ (17,450)
Gains recognized during year, net of income tax	**8,787**	824
	$ (7,839)	$ (16,626)

The components of the actuarial gains recognized during the year are as follows:

	2016	2015
Return on plan assets	**$ 10,259**	$ 19
Actuarial gains arising from changes in mortality assumptions	**—**	423
Actuarial gains arising from changes in financial assumptions	**1,986**	787
Actuarial (losses) arising from experience adjustments	**(290)**	(107)
	11,955	1,122
Income tax expense	**3,168**	298
	$ 8,787	$ 824

Information, in aggregate, regarding the Company's benefit plans for the years 2016 and 2015 is presented below.

December 31, 2016	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 158,631	$ 10,467	$ 169,098
Fair value of plan assets	159,475	—	159,475
Net liability	$ (844)	$ 10,467	$ 9,623

December 31, 2015	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 158,562	$ 10,618	$ 169,180
Fair value of plan assets	148,328	—	148,328
Net liability	$ 10,234	$ 10,618	$ 20,852

The presentation on the consolidated financial statements of the net liability is as follows:

	December 31	
	2016	2015
Employee future benefit liabilities	**$ 23,140**	$ 23,258
Employee future benefit assets	**13,517**	2,406
Net liability	**$ 9,623**	$ 20,852

The movements in the present value of the fair value of the plan assets and defined benefit obligations is as follows:

2016

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 148,328	$ —	$ 148,328
Expected return on plan assets	5,693	—	5,693
Return on plan assets in excess of expected return	10,259	—	10,259
Benefits paid	(8,190)	(609)	(8,799)
Employer contributions to plans	2,639	474	3,113
Employee contributions to plans	746	—	746
Other	—	135	135
Fair value, end of year	$ 159,475	$ —	$ 159,475
Employee Future Benefit Obligations			
Obligations, beginning of year	$ 158,531	$ 10,649	$ 169,180
Employer current service cost	3,030	137	3,167
Employee current service cost	746	—	746
Interest cost	6,022	400	6,422
Benefits paid	(8,191)	(608)	(8,799)
Actuarial losses	(1,570)	(126)	(1,696)
Other	63	15	78
Obligations, end of year	$ 158,631	$ 10,467	$ 169,098

2015

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 146,572	$ —	$ 146,572
Expected return on plan assets	5,642	—	5,642
Return on plan assets in excess of expected return	19	—	19
Benefits paid	(8,534)	(620)	(9,154)
Employer contributions to plans	3,738	542	4,280
Employee contributions to plans	891	—	891
Other	—	78	78
Fair value, end of year	$ 148,328	$ —	$ 148,328

Employee Future Benefit Obligations			
Obligations, beginning of year	$ 157,504	$ 10,954	$ 168,458
Employer current service cost	3,186	196	3,382
Employee current service cost	799	—	799
Interest cost	5,944	401	6,345
Benefits paid	(8,535)	(621)	(9,156)
Actuarial losses	(367)	(80)	(447)
Other	—	(201)	(201)
Obligations, end of year	$ 158,531	$ 10,649	$ 169,180

The surplus position of the defined benefit pension plans consists of the following:

	December 31	
	2016	2015
The Employee Pension Plan of Algoma Central Corporation	**$ 12,199**	$ 1,610
The Union Employee Pension Plan of Algoma Ship Repair	**1,318**	796
	$ 13,517	$ 2,406

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

	December 31	
	2016	2015
Supplementary Employee Retirement Plan	**$ 12,489**	$ 12,498
Other benefit plans	**10,651**	10,760
	$ 23,140	$ 23,258

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

2016	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 3,030	$ 137	$ 3,167
Interest cost on plan obligations	6,022	400	6,422
Expected return on plan assets	(5,693)	—	(5,693)
Net benefit expense	$ 3,359	$ 537	$ 3,896

2015	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 3,186	$ 196	$ 3,382
Interest cost on plan obligations	5,944	401	6,345
Expected return on plan assets	(5,642)	—	(5,642)
Net benefit expense	$ 3,488	$ 597	$ 4,085

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

	2016	2015
Short term notes	**$ 10,670**	$ 11,226
Canadian Government bonds	**32,664**	33,045
Canadian corporate bonds	**1,478**	2,569
Canadian equities	**52,406**	39,785
Foreign equities	**65,191**	63,920
Annuities	**5,463**	5,875
	167,872	156,420
Amount related to defined contribution plans	**(8,397)**	(8,092)
	$ 159,475	$ 148,328

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

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 invested plan assets for 2016 was 11.8% or $17,386 (2015 - 4.7% or $6,809).

The Company expects to make contributions of $1,913 (2015 - $2,951) to the defined benefit pension plans during the next fiscal year.

The expense recognized in the consolidated statements of earnings for defined contribution plans is $1,215 (2015 - $1,649).

Sensitivity analyses

Significant actuarial assumptions used in the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below are determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by $18,141 (increase by $22,193).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $2,242 (decrease by $2,049).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by $3,678 (decrease by $3,749).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated balance sheets.

The average duration of the benefit obligation at December 31, 2016 is 11.2 years (2015: 11.2 years). This number can be analysed as follows:

- active members: 14.3 years (2015: 14.5 years);
- deferred members: 14.8 years (2015: 15.6 years); and
- retired members: 8.4 years (2015: 8.4 years).

22. LONG-TERM DEBT

	December 31	
	2016	2015
Convertible unsecured subordinated debentures, due March 31, 2018, interest at 6.00%	**$ 67,555**	$ 66,506
Senior Secured Notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	**100,705**	103,800
Canadian $75,000, interest fixed at 5.52%	**75,000**	75,000
	243,260	245,306
Less unamortized financing expenses	**2,705**	2,758
	240,555	242,548
Current portion: Revolving loan, came due July 19, 2016 , U.S. $1,040, interest at U.S. base rate in Canada of 4.00% plus 0.75%	**—**	1,448
	$ 240,555	$ 243,996

In July 2016, the Company renewed and amended its Bank Facility that came due on July 19, 2016. The new Facility is for a four-year term and comprises a $50 million Canadian dollar and a $100 million U.S. dollar senior secured revolving bank credit facility provided by a syndicate of seven banks. The Bank Facility bears interest at rates that are based on the Company's ratio of senior debt to earnings before interest, taxes, depreciation and amortization and ranges from 150 to 275 basis points above bankers' acceptance or LIBOR rates. The Company 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 Company's real estate assets and vessels that are not wholly owned are not directly encumbered. At December 31, 2016, the Company had $49,307 Canadian dollar and $100,000 U.S. dollar undrawn and available under existing credit facilities. The Company maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs.

The Company is subject to certain covenants including ones with respect to maintaining defined financial ratios and other conditions under the terms of the Bank Facility and the Notes.

As at December 31, 2016, and 2015 the Company was in compliance with all of its covenants.

During 2016, the Company capitalized $7,319 (2015 - $3,680) in borrowing costs using a capitalization rate of 6.34% (2015 - 6.34%). 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:

	December 31	
	2016	2015
Falling due within one year	**$ —**	$ 1,448
Falling due between one and two years	**67,555**	—
Falling due between two and three years	**—**	66,506
Falling due between three and four years	**—**	—
Falling due in four years or later	**175,705**	178,800
	$ 243,260	$ 246,754

23. CONVERTIBLE DEBENTURES

Each debenture can be converted into common shares of the Company at the option of the holder at any time prior to maturity at a price equal to $15.40 per common share (the "Conversion Price"). On redemption at the maturity date, the Company 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 Company has the option to repay the principal amount with common shares.

The Debentures have been redeemable by the Company since March 31, 2014. From March 31, 2016 until maturity, the Company may redeem the Debentures with notice, in whole or in part for principal plus accrued interest at any time.

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 $4,630 (2015 - $4,630), 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 at inception, 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 Company at the time the debentures were issued. The liability component will be accreted to the $69,000 face value of the debentures over the term of the debentures with a resulting charge to interest expense.

24. SHARE CAPITAL

Share capital

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

The Company has 38,913,733 common shares outstanding as at December 31, 2016 and 2015.

At December 31, 2016 and 2015 there were no preferred shares issued and outstanding.

The Company's Board of Directors on February 1, 2017 authorized payment of a quarterly dividend to shareholders of $0.07 per common share. The dividend is payable on March 1, 2017 to shareholders of record on February 15, 2017.

The basic and diluted net earnings per share are computed as follows:

		2016		2015
Net earnings from continuing operations for basic earnings per share	**$**	**7,374**	$	21,069
Interest expense on debentures, net of tax		**4,196**		4,139
Net earnings from continuing operations for diluted earnings per share	**$**	**11,570**	$	25,208
Basic weighted average common shares		**38,913,733**		38,912,995
Shares due to dilutive effect of debentures		**4,478,896**		4,478,896
Diluted weighted average common shares		**43,392,629**		43,391,891
Basic earnings per common share from continuing operations	**$**	**0.19**	$	0.54
Diluted net earnings per common share from continuing operations	**$**	**0.19**	$	0.54

The impact of the convertible debentures is anti-dilutive as at December 31, 2016 and 2015.

25. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Hedges			
	Net investment	Purchase commitment	Foreign exchange translation	Total
Balance at December 31, 2014	$ (7,840)	$ 7,059	$ 11,870	$ 11,089
(Loss) gain	(16,793)	18,417	8,079	9,703
Reclassified to earnings	—	(18,300)	—	(18,300)
Income tax recovery (expense)	2,224	(31)	—	2,193
Net (loss) gain	(14,569)	86	8,079	(6,404)
Balance at December 31, 2015	$ (22,409)	$ 7,145	$ 19,949	$ 4,685
Gain (loss)	4,356	(922)	(9,529)	(6,095)
Reclassified to property, plant, and equipment	—	(2,859)	—	(2,859)
Income tax (expense) recovery	(578)	1,002	—	424
Net gain (loss)	3,778	(2,779)	(9,529)	(8,530)
Balance at December 31, 2016	**$ (18,631)**	**$ 4,366**	**$ 10,420**	**$ (3,845)**

The net investment hedge reserve represents the cumulative exchange differences on translation of long-term debt held in foreign currency. The Company has elected to hedge a portion of its net investment in foreign subsidiaries with its foreign-denominated debt. Exchange differences accumulated will be reclassified to earnings in the event of a disposal of a foreign operation.

The purchase commitment hedge reserve represents the cumulative exchange differences on translation of cash held in foreign currency which the Company has elected to designate as a hedge of future U.S. dollar commitments for the Equinox Class vessels. Exchange differences accumulated in the purchase commitment reserve will be reclassified to property, plant, and equipment when the payments to the supplier are made or to earnings when a hedge is deemed to be ineffective.

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (Canadian dollars) are recognized directly in other comprehensive earnings and accumulated in the foreign exchange translation reserve. Exchange differences accumulated in the 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.

26. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

The other items not affecting cash for the twelve months ended December 31, 2016 and 2015 is as follows:

	Note	2016	2015
Interest expense	9	$ 9,824	$ 13,280
Foreign currency gain	10	(3,505)	(3,789)
Unrealized loss on foreign currency exchange contracts	20	7,536	—
Income tax (recovery) expense	11	(8,351)	4,266
Loss (gain) on sale of property, plant, and equipment		2,398	(589)
		$ 7,902	$ 13,168

The change in non-cash operating working capital for the twelve months ended December 31, 2016 and 2015 is as follows:

	2016	2015
Accounts receivable	$ (4,429)	$ 16,566
Materials and supplies	(1,259)	2,450
Prepaid expenses	(421)	1,524
Accounts payable and accrued charges	15,103	(10,876)
	$ 8,994	$ 9,664

27. CAPITAL DISCLOSURE

The Company’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 Company will target to maintain a long-term debt to equity ratio of no greater than one-to-one. The Company 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 Company’s Board of Directors reviews the ROCE target on an annual basis and it reviews the level of dividends to be paid to the Company’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 Company ranged from 2.5% to 8.2%.

The Company 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 Company 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 $10,000 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 2016 was 6.7% versus 4.2% for 2015 and has averaged 8.8% over the five years ended December 31, 2016.

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

The long-term debt to shareholders' equity ratio at December 31, 2016 and 2015 is as follows:

	2016	2015
Total long-term debt	**$ 243,260**	$ 246,754
Shareholders' equity	**$ 641,550**	$ 618,610
Debt to shareholders' equity ratio	**0.38 to 1**	0.40 to 1

28. COMMITMENTS

The table below reflects the commitments the Company has at December 31, 2016.

Construction of seven Equinox Class vessels	**$ 257,601**
Construction of three cement carriers	**4,264**
Employee future benefit payments	**600**
	$ 262,465

Annual expected payments are as follows:

Due in 2017	**$ 143,989**
Due in 2018	**91,937**
Due in 2019	**26,275**
Due in 2020	**264**
	$ 262,465

29. CONTINGENCIES

The Company, in the normal course of business, may be involved in legal proceedings and tax audits. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions and tax audits are not expected to have a material effect on the Company's consolidated financial position, results of operations or liquidity.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

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

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 and 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).

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

Fair value

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

	December 31	
	2016	2015
Financial assets carrying and fair value		
Cash	**$ 130,039**	$ 210,562
Accounts receivable	**$ 52,172**	$ 47,744
Derivative asset	**$ 658**	$ —
Other assets	**$ 14,244**	$ 85,699
Financial liabilities carrying and fair value		
Accounts payable and accrued charges	**$ 76,416**	$ 49,594
Dividends payable	**$ 527**	$ 527
Derivative liabilities	**$ 770**	$ —
Other long-term liabilities	**$ 11,275**	$ —
Carrying value of long-term debt	**$ 243,260**	$ 246,754
Fair value of long-term debt	**$ 257,454**	$ 263,464

All of the above financial assets and liabilities are classified as Level 2.

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 rates.

Financial risk management objectives

The Company 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 Company may take steps 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 Company'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 Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company may also utilize foreign exchange forward contracts and hedges related to purchase commitments 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 quarterly.

Risk Management and Financial Instruments

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

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. The maximum exposure to credit risk is represented by the carrying value of the financial assets on the consolidated balance sheets.

The Company believes that the credit risk for accounts receivable is limited since the majority of accounts receivable at December 31, 2016 and 2015 have been outstanding for 60 days or less, and the customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies.

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, 2016 and December 31, 2015 was not significant. The percentage of accounts receivable greater than 60 days past due was 10.3% and 5.7%, for December 31, 2016 and 2015, respectively.

Liquidity risk

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

The Company 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, 2016 was Canadian $50,000 and U.S. $100,000 in a revolving facility. At December 31, 2016, the Company had Canadian $49,307 and U.S. $100,000 available in the existing credit facility.

Substantially, all of the Company's wholly owned marine assets were pledged as collateral for the line of credit. The carrying value as of December 31, 2016 of the assets pledged was approximately $513,000. The Company'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, 2016 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 76,416	$ —	$ —	$ —	$ 76,416
Dividends payable	527	—	—	—	527
Other long-term liabilities	860	1,720	501	—	3,081
Long-term debt including equity portion	—	67,555	175,705	—	243,260
Interest payments	13,424	19,606	15,090	—	48,120
Total	$ 91,227	$ 88,881	$ 191,296	$ —	$ 371,404

Market risk

(a) Fuel prices

The Company has provisions in the vast majority of its contracts with customers that provide adjustment mechanisms for changes in fuel prices. Accordingly, there is not a significant exposure to the volatility of fuel prices.

(b) Interest rate risk

The Company is exposed to interest rate risk because the Company can borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. At December 31, 2016 and 2015, the Company did not have any significant cash flow exposure to interest rate movements for its outstanding debt, since virtually all of its borrowings have interest rates that have been fixed (Note 22).

(c) Interest rate sensitivity analysis

At December 31, 2016 and 2015 respectively, all of the Company borrowings have interest rates that are fixed, therefore there is minimal exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period.

(d) Foreign currency exchange risk

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

At December 31, 2016 and 2015, approximately 17% and 31%, respectively, of the Company's total assets were denominated in U.S. dollars, including U.S. cash of $25,254 and $86,268 at December 31, 2016 and 2015, respectively.

The Company's exposure to foreign currency fluctuations is related to its unhedged cash balances and unhedged net investment in foreign subsidiaries. The Company has hedged part of its investment in the subsidiaries and joint ventures against its foreign denominated long-term debt. At December 31, 2016 and 2015, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $223,748 and

$156,548 U.S. dollars, respectively. The amount used as a hedge at December 31, 2016 and 2015 was $75,000 U.S. dollars.

The Company has significant commitments due for payment in U.S. dollars and Euros. The Company utilizes foreign exchange forward contracts and U.S. cash as a hedge on purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding 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 Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2016 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €97,170 and a fair value loss of $12,592 (December 31, 2015 - nil, and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $97,148 and fair value gain of $5,055 (December 31, 2015 - nil). The contract maturities are as follows: 2017 - €32,389, U.S. - $81,468, 2018 - €64,781, U.S. - $15,680.

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

Based on the Company's estimates, a ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase net earnings in the current year by $1,513.

Based on the balances at December 31, 2016 and 2015:

- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase other comprehensive earnings by $11,455 and $8,629, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase total assets by $13,075 and $22,239, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S dollar would increase total liabilities by $7,500.

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

31. SEGMENT DISCLOSURES

The Company operates through four segments; Domestic Dry-Bulk, Product Tankers, Ocean Dry-Bulk Shipping and Global Short Sea Shipping. The segment operating results include fully consolidated subsidiaries and interests in jointly controlled entities. Segment disclosures are based on how the Chief Executive Officer views operating results and how decisions are made about resources to be allocated to operating segments.

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

Revenues	**2016**	2015
Domestic Dry-Bulk	**$ 244,221**	$ 299,553
Product Tankers	**63,004**	75,335
Ocean Dry-Bulk Shipping	**72,179**	38,605
	$ 379,404	$ 413,493

Operating Expenses	**2016**	2015
Domestic Dry-Bulk	**$ 195,869**	$ 256,020
Product Tankers	**41,238**	46,519
Ocean Dry-Bulk Shipping	**43,682**	24,683
	$ 280,789	$ 327,222

Net Earnings from Continuing Operations	**2016**		2015	
Operating earnings net of income tax				
Domestic Dry-Bulk	**$ 9,407**		$ 3,396	
Impairment on assets	**(27,519)**		(689)	
Gain on cancellation of shipbuilding contracts	**22,322**		9,972	
Unrealized loss on foreign currency exchange contracts	**(5,539)**	**(1,329)**	—	12,679
Product Tankers	**8,207**		11,910	
Impairment on assets	**(3,837)**	**4,370**	—	11,910
Ocean Dry-Bulk Shipping		**18,971**		12,945
Global Short Sea Shipping		**2,542**		—
Corporate		**(11,820)**		(10,059)
Segment earnings		**12,734**		27,475
Not specifically identifiable to segments				
Interest expense		**(9,824)**		(13,280)
Interest income		**1,142**		1,270
Foreign currency gain		**3,505**		3,789
Income tax (expense) recovery		**(183)**		1,815
		$ 7,374		$ 21,069

Assets	December 31 2016	2015
Domestic Dry-Bulk	**$ 468,401**	$ 479,720
Product Tankers	**110,110**	124,616
Ocean Dry-Bulk Shipping	**182,997**	75,375
Global Short Sea Shipping	**68,656**	—
Assets of discontinued operations held for sale	**61,023**	82,665
Total assets allocated to segments	**891,187**	762,376
Not specifically identifiable to segments	**144,826**	226,429
	$ 1,036,013	$ 988,805

Additions to Property, Plant, and Equipment	2016	2015
Domestic Dry-Bulk	**$ 122,305**	$ 111,194
Product Tankers	**1,845**	459
Ocean Dry-Bulk Shipping	**124,714**	4,204
Total per property, plant, and equipment note (Note 15)	**248,864**	115,857
Capitalized interest	**(7,319)**	(3,680)
Amounts included in working capital	**(20,761)**	1,123
Total per cash flow statement	**$ 220,784**	$ 113,300

Depreciation of Property, Plant, and Equipment	2016	2015
Domestic Dry-Bulk	**$ 25,479**	$ 29,240
Product Tankers	**9,031**	10,161
Ocean Dry-Bulk Shipping	**12,393**	5,506
	$ 46,903	$ 44,907

Liabilities	December 31 2016	2015
Domestic Dry-Bulk	**$ 64,993**	$ 39,799
Product Tankers	**22,534**	24,739
Ocean Dry-Bulk Shipping	**9,363**	2,588
Liabilities of discontinued operations held for sale	**15,830**	10,218
Total liabilities allocated to segments	**112,720**	77,344
Not specifically identifiable to segments		
Current liabilities	**527**	1,975
Other	**281,216**	290,876
Total Liabilities	**$ 394,463**	$ 370,195

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

The Company's proportionate share of the property, plant, and equipment and revenues from foreign operations at December 31, 2016 and 2015 is as follows:

	December 31 2016	2015
Property, plant, and equipment	**$ 162,395**	$ 58,723
Revenues	**$ 72,179**	$ 38,605

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, 2016 and 2015, sales outside of Canada were $170,729 and $129,424, respectively.

The Company had two customers in 2016 and three in 2015 whose revenues exceeded 10% of consolidated revenues. Sales by segment for these customers are as follows:

	2016	2015
Domestic Dry-Bulk	**$ 83,907**	$ 143,604
Product Tankers	**$ 54,902**	$ 66,962

32. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key members of management for the years ending December 31, 2016 and 2015 are as follows:

	2016	2015
Short-term compensation and benefits	**$ 3,724**	$ 3,173
Share-based compensation	**410**	313
Post-employment benefits	**183**	195
	$ 4,317	$ 3,681

33. RELATED PARTIES

The Company'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 2016 and 2015.

34. COMPARATIVE FIGURES

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

The Company has restated the January 1, 2015 cost and accumulated depreciation balances as follows:

January 1, 2015	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Cost				
Restated	$ 767,597	$ 211,669	$ 82,532	$ 1,061,798
As previously reported	754,609	235,127	88,228	1,077,964
	$ 12,988	$ (23,458)	$ (5,696)	$ (16,166)
Accumulated Depreciation				
Restated	$ 411,525	$ 85,858	$ 33,689	$ 531,072
As previously reported	411,675	97,957	37,606	547,238
	$ (150)	$ (12,099)	$ (3,917)	$ (16,166)
Net Book Value				
Restated	$ 356,072	$ 125,811	$ 48,843	$ 530,726
As previously reported	342,934	137,170	50,622	530,726
	$ 13,138	$ (11,359)	$ (1,779)	$ —

The Company has restated the December 31, 2015 cost and accumulated depreciation balances as follows:

December 31, 2015	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Cost				
Restated	$ 762,105	$ 198,603	$ 101,060	$ 1,061,768
As previously reported	749,117	222,061	106,756	1,077,934
	$ 12,988	$ (23,458)	$ (5,696)	$ (16,166)
Accumulated Depreciation				
Restated	$ 420,421	$ 84,091	$ 44,116	$ 548,628
As previously reported	420,571	96,190	48,033	564,794
	$ (150)	$ (12,099)	$ (3,917)	$ (16,166)
Net Book Value				
Restated	$ 341,684	$ 114,512	$ 56,944	$ 513,140
As previously reported	328,546	125,871	58,723	513,140
	$ 13,138	$ (11,359)	$ (1,779)	$ —

The restatements have no impact on net book value or the consolidated balance sheets, statements of earnings, or consolidated statements of cash flows. The impact on the notes to the financial statements is immaterial.

Five-Year Summary (In thousands of dollars, except per share data)

	2016	2015	2014	2013	2012 (Note 1)
Revenue					
Domestic Dry-Bulk	$ 244,221	$ 299,553	$ 337,244	$ 323,023	$ 375,554
Product Tankers	63,004	75,335	95,152	100,635	87,164
Ocean Dry-Bulk Shipping	72,179	38,605	41,050	39,513	35,966
	$ 379,404	$ 413,493	$ 473,446	$ 463,171	$ 498,684
Net earnings	$ 33,315	$ 25,771	$ 52,765	$ 41,923	$ 42,156
Segment earnings net of income taxes	$ 12,734	$ 27,475	$ 54,276	$ 43,640	$ 56,693
Depreciation	$ 46,903	$ 44,907	$ 39,255	$ 39,967	$ 38,476
General and administrative expenses	$ 29,733	$ 26,313	$ 23,831	$ 22,719	$ 25,801
Cash flow	$ 90,124	$ 57,751	$ 97,647	$ 101,307	$ 92,187
Dividends paid	$ 10,895	$ 10,895	$ 10,895	$ 10,895	$ 8,438
Property, plant, and equipment					
Additions in year	$ 248,864	$ 115,857	$ 25,332	$ 44,973	$ 88,348
Net book value	$ 660,251	$ 513,140	$ 530,726	$ 529,734	$ 519,965
EBITDA (Note 2)	$ 89,300	$ 79,538	$ 99,192	$ 97,336	$ 114,477
Total assets	$1,036,013	$ 988,805	$ 974,055	$ 856,159	$ 802,009
Long-term debt including current	$ 243,260	$ 246,754	$ 227,562	$ 232,922	$ 225,726
Shareholders' equity	$ 641,550	$ 618,610	$ 607,099	$ 561,086	$ 498,454
LTD as a percent of shareholders' equity	37.9 %	39.9 %	37.5%	41.5%	45.3%
Return on capital employed (Note 3)	4.2 %	2.5 %	6.3%	6.1%	8.2%
Adjusted return on capital employed (Note 4)	6.7 %	4.1 %	10.7%	10.1%	12.4%
Return on equity (Note 5)	5.3 %	4.2 %	9%	7.9%	8.7%
Total shareholder return (Note 6)	(15.8)%	(6.1)%	0.5%	19.6%	41%

FIVE-YEAR SUMMARY (In thousands of dollars except per share data)

	2016	2015	2014	2013	2012
Common Share Statistics (Note 7)					
Shares outstanding	38,913	38,913	38,912	38,912	38,912
Basic earnings per share	$ 0.86	$ 0.66	$ 1.36	$ 1.08	$ 1.08
Diluted earnings per share	$ 0.86	$ 0.66	$ 1.31	$ 1.06	$ 1.06
Cash flow per share	$ 2.31	$ 1.48	$ 2.51	$ 2.60	$ 2.37
Quoted market value					
High	$ 14.18	$ 17.60	$ 17.43	$ 17.18	$ 16.00
Low	$ 9.75	$ 13.27	$ 14.65	$ 13.33	$ 9.90
Dividends paid per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.22
Shareholders' equity per share	$ 16.49	$ 15.90	$ 15.60	$ 14.42	$ 12.81

Note 1 - 2012 has been restated from amounts originally reported to reflect application of new and revised IFRS standards.

Note 2 - EBITDA refers to earnings before interest, taxes, depreciation, and amortization including EBITDA of discontinued operations and the Company's share of the EBITDA of equity interests in joint arrangements.

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 shipbuilding contracts, reflecting the fact that these assets are currently not generating operating earnings.

Note 5 - Return on equity is net earnings as a percent of average shareholders' equity.

Note 6 - Total shareholder return is defined as the increase or decrease in the year in the common share price plus dividends paid expressed as a percent of the opening share price.

Note 7 - 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

Richard B. Carty (1) (2) (3)
Toronto, Ontario,
Vice President, General Counsel
and Corporate Secretary
E-L Financial Corporation Limited

E. M. Blake Hutcheson (1) (3)
Toronto, Ontario,
President and Chief Executive Officer
Oxford Properties Group Inc.

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

Mark McQueen (1)
Toronto, Ontario,
President and Chief Executive Officer
Wellington Financial LLP

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.

Eric Stevenson (2) (3)
Toronto Ontario,
Venture Capitalist and Co-Founder
Perseverance Marine

(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

Ken B. Soerensen
President and Chief Executive Officer

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

Gregg A. Ruhl
Senior Vice President, Engineering

Wayne A. Smith
Senior Vice President, Commercial

Dennis McPhee
Vice President, Sales and Vessel Traffic

Thomas G. Siklos
President,
Algoma Central Properties Inc.

Karen A. Watt
Vice President, Human Resources

J. Wesley Newton, LLB
Secretary

Shareholders' Meeting

The Annual Meeting of Shareholders will be held at 11:30 a.m., on Friday, May 5, 2017 at the Holiday Inn Hotel & Suites Conference Centre, 327 Ontario Street, St. Catharines, ON.

Contact Information

Executive Office,
Domestic Dry-Bulk and Tanker Operations,
Algoma Central Properties Inc. and Algoma Hotels Ltd.
63 Church Street, Suite 600,
St. Catharines, Ontario, L2R 3C4
(905) 687-7888
E-mail: inquiries@algonet.com
Website: www.algonet.com

Algoma Ship Repair
1 Chestnut Street,
Port Colborne, Ontario, L3K 1R3
(905) 834-4549

Algoma Shipping Ltd. and Algoma International Shipholdings Ltd.
Century House, 16 Par-la-dille Road
Hamilton, Bermuda
(978) 232-4800

Algoma Tankers International Inc.
Whitepark House, Whitepark Road, Bridgetown, Barbados

NovaAlgoma Cement Carriers Limited
Via Bajutti 5
6900 - Lugano, Switzerland

Shareholder Information

Principal Banker and Security Agent:	The Bank of Nova Scotia
Auditors:	Deloitte LLP
Toronto Stock Exchange Symbols:	ALC - Common Stock ALC DB - Convertible Debenture
Share Registrar and Transfer Agent:	CST Trust Company P.O. Box 700, Station B, Montreal, QC H3B 3K3 Tel: 416-682-3860 1-800-387-0825 Fax: 1-888-249-6189 Email: inquiries@canstockta.com Website: www.canstockta.com

Fleet

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

Cargo capacity in tonnes

Domestic Dry-Bulk - Self-unloaders	Class	Maximum	Seaway Draft
Captain Henry Jackman	GL	30,924	27,260
John B. Aird (Note 1)	GL	31,352	27,755
Radcliffe R. Latimer	GL / ES	37,257	26,870
Algoma Mariner	GL / ES	33,334	26,870
Algolake	GL	27,185	28,042
Algorail	GL	30,770	21,060
Algosteel	GL	24,194	24,942
Algoway	GL	32,771	21,418
Algowood	GL	34,398	27,715
Algoma Enterprise	GL	30,811	27,997
Algoma Olympic	GL	32,145	27,913
Algoma Transport	GL	33,203	26,815
John D. Leitch	GL	34,675	28,803

Domestic Dry-Bulk - Bulk Carriers	Class	Maximum	Seaway Draft
Algoma Equinox	GL	38,450	29,650
Algoma Harvester	GL	38,450	29,650
Tim S. Dool	GL	31,553	28,116
Algoma Spirit	UO	37,792	25,140
Algoma Discovery	UO	37,911	25,140
Algoma Guardian	GL	37,911	25,140
Algoma Strongfield (Note 2)	GL	38,450	29,650
G3 Marquis (Note 3)	GL	38,450	29,650

Note 1 - Vessel demised at the completion of their 2017 winter season work.
Note 2 - Vessel acquired in February 2017.
Note 3 - Vessel is owned by G3 Canada Limited and managed by the Company.

Product Tankers	Class	Maximum	Winter
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 Hansa	UO	16,775	16,267
Algoma Dartmouth	UO	3,568	3,436

Ocean Shipping	Class	Maximum
Bahama Spirit	UO	43,789
Honourable Henry Jackman	UO	75,597
Algoma Vision	UO	71,348
Algoma Value	UO	75,569
Algoma Integrity	UO	33,047
Jointly owned		
Weser Stahl	UO	46,657
Venture	UO	48,184

Cement Carriers	Maximum
NACC Vega	7,450
NACC Vivara	7,450
NACC Procida	7,450
NACC Star	7,000
NACC Capri	7,000
NACC Panarea	4,897
NACC Toronto	13,977

Notes

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