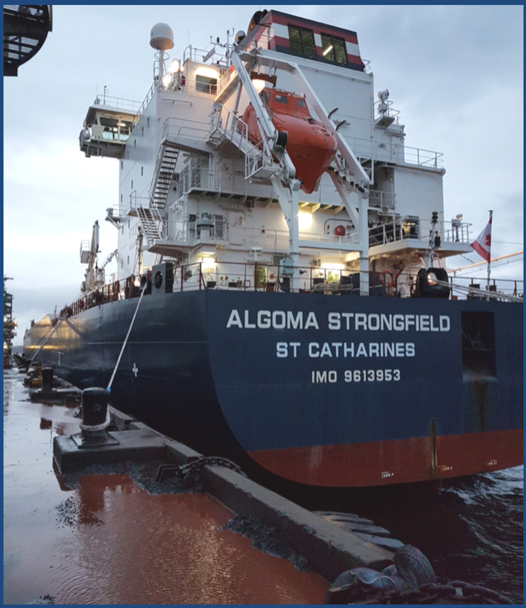
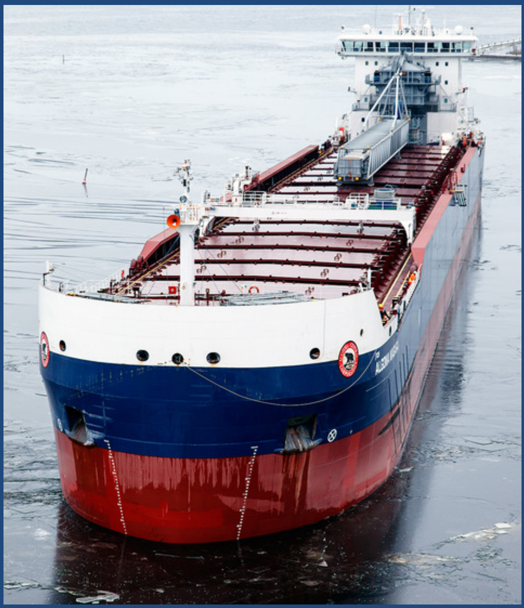
ANNUAL REPORT
2017






Short Sea Shipping is OUR BUSINESS

Vision

Algoma's Vision is to grow its 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.

Table of Contents

About the Company 1

Financial Highlights... 2

President's Message 3

Management's Discussion and Analysis 6

Responsibility for Financial Statements 41

Independent Auditor's Report 42

Consolidated Financial Statements and Notes 43

Five-Year Summary 93

Directors and Officers 95

Contact and Shareholder Information 96

About the Company

Algoma Central Corporation owns and operates the largest fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway, including self-unloading dry-bulk carriers, gearless dry-bulk carriers and product tankers. Algoma also owns ocean self-unloading dry-bulk vessels operating in international markets. Algoma has expanded into global short sea markets through it 50% interests in NovaAlgoma Cement Carriers ("NACC") and NovaAlgoma Short Sea Carriers ("NASC").

The Domestic Dry-Bulk marine transportation segment includes ownership and management of the operational and commercial activities of the Company's fleet. The dry-bulk vessels carry cargoes of raw materials such as iron ore, grain, salt and aggregates and operate throughout the Great Lakes - St. Lawrence Waterway. Seven new vessels have been added to the Company's fleet as part of its Equinox Class domestic dry-bulk fleet renewal program. Algoma has additional new builds in the pipeline.

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 Self-Unloaders segment includes ownership of five ocean-going self-unloading vessels, a 50% interest in a sixth self-unloader and a 25% interest in a specialized ocean vessel. These vessels are engaged in the carriage of dry-bulk commodities in worldwide trades.

The Global Short Sea Shipping segment focuses on niche markets featuring specialized equipment or services. The NACC fleet comprises pneumatic cement carriers servicing large global manufacturers that support infrastructure investment; the fleet is now the second largest in the world. NASC manages a short sea mini bulker fleet that comprises owned ships, chartered vessels, and vessels under third party management contracts. The NASC fleet moves approximately 15 million tonnes annually in support of the agricultural, cement, construction, energy and steel industries worldwide.

Financial Highlights

	2017	2016
For the year		
Revenue	**$ 451,050**	$ 391,406
Net earnings from continuing operations	**$ 32,367**	$ 10,596
Net earnings from discontinued operations	**$ 23,828**	$ 22,719
Net earnings	**$ 56,195**	$ 33,315
Basic earnings per common share	**$ 1.44**	$ 0.85
EBITDA (Note 1)	**$ 101,632**	$ 87,922
Cash flow generated from operating activities	**$ 62,765**	$ 90,088
Additions to property, plant, and equipment	**$ 157,520**	$ 248,864
Dividends paid per common share	**$ 0.32**	$ 0.28
Return on capital employed (Note 2)	**4.3%**	4.2%
Adjusted return on capital employed (Note 3)	**6.4%**	6.7%
Return on equity	**8.6%**	5.3%
At December 31		
Total assets	**$ 1,100,290**	$ 1,036,013
Shareholders' equity	**$ 660,460**	$ 641,550
Long-term debt (including current)	**$ 297,333**	$ 243,260
Equity per common share	**$ 17.13**	$ 16.49
Common shares outstanding	**38,552,315**	38,913,733

Note 1 - 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 2 - 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 3 - Adjusted return on capital employed is defined as segment operating earnings after income taxes expressed as a percent of adjusted average capital employed. Adjusted average capital employed is capital employed less the average cash in excess of $10 million and less the average amount of instalments on shipbuilding contracts, reflecting the fact that these assets are currently not generating operating earnings.

President's Message to Shareholders

Since I joined almost three years ago I have watched Algoma grow, adapt and overcome; we have grown our fleet both domestically and internationally, we have adapted to changing market conditions, and we have overcome challenges in our fleet renewal program. Through these changes and challenges, we have consistently maintained our leading position on the Great Lakes - St. Lawrence Waterway and we take pride in our resilience, success and forward-thinking attitude.

Fiscal 2017 was a year of new endeavours for Algoma and I am proud with the way all members of the Algoma team rose to each occasion and demonstrated "*One vision, One Purpose, One Team*". In this letter I will focus on the year's highlights, the challenges we faced, the choices we have made, and what we expect in the future; but first, a brief financial overview of 2017.

Financial Results

Algoma is reporting revenues for 2017 of $451 million, an increase of 15% compared to the prior year. Both of our domestic segments experienced increased volumes this year:

In Domestic Dry-Bulk, volumes were up across the majority of sectors reflecting a 14% increase in revenue compared to 2016. A higher demand for iron and steel provided a bright spot and we have begun to see more normal salt volumes this past year compared to 2016 with a 26% percent volume increase. Operating days were up 16% over 2016, reflecting the increase in volume and the addition of two vessels during the year.

Our Tanker volumes were also up for the year with a corresponding 37% increase in revenue compared to 2016; this was primarily due to a higher demand from our major customer. In order to fill the demand we decided to utilize a bareboat charter and several time chartered foreign vessels requiring flag waivers and were successful in increasing capacity. Operating costs increased 66% due to the additional charter vessels but also because the *Algosea* suffered some significant mechanical issues resulting in a five month lay-up and on another vessel an issue later in the year resulting in a month out of service.

On October 21, 2017, the Canadian Merchant Services Guild ("CMSG"), which represents 54 navigation and engineering officers on the Product Tanker fleet, launched a strike against the company. The crews were able to safely secure the two vessels involved before they left their posts. By October 27, 2017, CMSG and the Company reached an agreement ending the strike. I would like to thank all who were involved in the negotiation process and I am happy we were able to successfully reach an agreement.

One important financial result for us is the degree by which the total amount of revenue earned directly by Algoma or by our joint ventures has grown. This is an important factor that can be expected to drive growth in our earnings in future years. Revenues generated by our joint ventures is every bit as important in driving our net earnings but it is not emphasized in our annual financial statements due to limitations inherent in generally accepted accounting principles. We monitor the total amount of revenues that drive our earnings and we call this figure Managed Revenue internally. It is the sum of our consolidated revenues as reported in our statement of earnings plus our share of revenues of joint ventures and revenues from our discontinued real estate operations. Managed Revenues for 2017 totalled $575 million compared to $445 million for 2016. This significant growth was driven principally by the addition of the NASC business this year.

Earnings before interest, taxes, and depreciation (EBITDA - see reconciliation in our Management's Discussion and Analysis or MD&A) was $101.6 million compared to $87.9 million last year. The 16% improvement was driven by improved EBITDA from our Domestic Dry-Bulk segment which was more than offset by the decrease in the Ocean Self-Unloader and Product Tanker businesses. Additionally, during 2017, the Company undertook a re-structuring of its shore-based work force resulting in a 10% head count reduction and certain other cost savings. Selling, general and administrative expenses was $1,450 less than 2016 as a result of these actions.

Net earnings for 2017 were $56.2 million or $1.44 per share compared to 2016 net earnings of $33.3 million or $0.85 per share. There were a number of positive and negative factors that impacted our earnings this year. The main items were:

- Earnings for fiscal 2017 were not subject to any impairment expenses, which in 2016 totalled $42.7 million. This related to the impairment of the carrying value of our Domestic Dry-Bulk and Product Tanker fleets.
- We have completed selling seven of the remaining properties held for sale in our real estate portfolio. We saw a pre-tax gain on the sale of these properties of $28.8 million. Over two years we generated net cash of $96.7 million selling these non-strategic assets. This is disclosed with earnings from discontinued operations in our earnings statement.
- Cash flow from operating activities for 2017 totalled $62.8 million compared to $90.1 million for 2016. The decrease was as a result of cash income tax instalments and an increase in accounts receivable.
- Over the course of 2017, we invested $200.5 million in the acquisition of NASC and costs related to capitalized dry-docking on certain vessels, instalments on new Equinox Class self-unloaders, the purchase of four river-class vessels and of course, dividends to our loyal shareholders.
- At year end, our cash balance stood at $68.8 million which, when combined with our expected cash inflows for 2018 and our available credit facilities, leaves us well positioned to continue the aggressive investment plan we have in place.

2017 Accomplishments

Fiscal 2017 was a year of improved safety performance and I am very pleased to announce that the number and frequency of lost time injuries was the lowest experienced in Algoma's history of reporting these incidents. Safety in all operations is extremely important to us and I would like to commend our crew members on their strong performance and participation in Leading Indicator Metrics to reduce injury in the workplace and their commitment to the fleet mission statement "*Don't hurt, Don't Spill, Don't Damage*."

Algoma's strategic vision, Double Double by 2025, and our 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,* is quickly becoming a reality for us.

NovaAlgoma Cement Carriers or NACC, has rapidly grown to ten cement carriers with three currently under development. We thought ten vessels in three years was a reasonably aggressive target but one that we were confident could be reached; we exceeded this goal in just 18 months. With this goal surpassed, we saw an opportunity to create a second joint venture with our partner, Nova Marine Carriers, creating NovaAlgoma Short Sea Carriers or NASC. Currently, NASC's fleet consists of 15 owned short sea mini bulkers in a fleet of an average of 60 vessels. These vessels support the agricultural, cement, construction, energy and steel industries worldwide.

In domestic operations, two new Equinox Class vessels joined our fleet, The *Algoma Niagara*, the first Equinox Class self-unloader to be delivered and the *Algoma Strongfield* which joined her Equinox Class gearless sister ships. The new ships contributed to the revenue increase compared to last year, driven primarily by volume increases in the iron and steel sectors they serve. We expect this will be the case again this year as market conditions continue to improve and as we see our older vessels replaced by newer ones, reducing maintenance and fuel costs.

Algoma acquired the *Algoma Conveyer,* the first and only Equinox self-unloader partially built by Nangtong Mingde, at auction in September, 2017, and the vessel is currently undergoing refurbishment and final construction at Yangzijiang shipyard in China. The vessel is expected to be completed and delivered in early 2019.

In December, 2017 Algoma announced an agreement made with American Steamship Company to acquire two vessels that will join our domestic fleet to ship salt, aggregates, and other commodities. The availability of these vessels presented an opportunity to expand our domestic fleet and capacity at extremely attractive values and to create new opportunities in the river-class segment.

What to Expect in 2018

We expect 2018 to be a year in which we further expand on our international segment. In addition to growing our NACC and NASC fleets we will be focusing our attention on increasing the organizations strengths and capabilities and to further establish a dedicated staff and offices to lead market development. We are also developing new market plans to expand our global footprint in the coming months.

Domestically, we are looking forward to the delivery of The *Algoma Sault*, the second Equinox Class 740' Self-Unloader from China, and from Croatia, the *Algoma Innovator*, which will be the first Equinox Class 650' forward mounted boom self-unloader; both are expected to begin operations in time for the upcoming navigation season. These ships will bring the total count of Equinox Class vessels in operations to seven; four gearless bulkers and three self-unloaders. An additional five vessels are in various stages of construction. Progress in Croatia has been behind schedule and we are seeking solutions for this issue. Having said that, the quality of their first ship is very high.

We expect that the upcoming year for Canada will be a year of continued growth. Iron ore was our biggest driver in 2017 and the salt and steel markets appear to be shaping up better than in the last few years. A few major infrastructure projects scheduled for 2018 can be expected to have a positive impact on the construction sector. More detail on this can be found in our MD&A.

On behalf of the Company and our employees, I would like to express our appreciation to our customers and business partners for their continued business, support and 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 4th, 2018 at Vantage Venues, 27th Floor, 150 King Street West, Toronto, ON. This will be the first AGM outside of St. Catharines and Sault Ste. Marie and 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 Self-Unloaders 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, 2017 and 2016 and related notes thereto and has been prepared as at March 12, 2018.

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 2017 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.

EBITDA refers to earnings before interest, taxes, depreciation, and amortization. The Company also includes EBITDA of discontinued operations and its share of the EBITDA of its 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 a version of it is used by credit providers in the financial covenants of the Company's long-term debt.

Adjusted Measures
Management assesses results on a reported and adjusted basis and considers both as useful measures of performance. Adjusted results remove items of note from reported results and are used to calculate the adjusted measure noted below. Items of note include certain items of significance that arise from time to time which management believes are not reflective of underlying business performance. We believe that adjusted measure

provides the reader with a better understanding of how management assesses underlying business performance and facilitate a more informed analysis of trends.

Adjusted Basic Earnings per Share
The Company adjusts reported Basic Earnings per Share to remove the impact of items of note, net of income taxes, and any other items specified to calculate the Adjusted Basic Earnings per Share (page 11).

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 2018 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, U.S. and global 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, 2017, 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

		2017		2016		2015
For year ended December 31						
Revenues	$	**451,050**	$	391,406	$	413,493
Net earnings	$	**56,195**	$	33,315	$	25,771
Basic earnings per common share	$	**1.44**	$	0.85	$	0.66
Continuing operations						
Net earnings	$	**32,367**	$	10,596	$	21,069
Basic earnings per common share	$	**0.83**	$	0.27	$	0.54
Net earnings from discontinued operations	$	**23,828**	$	22,719	$	4,702
At December 31						
Common shares outstanding		**38,552,315**		38,913,733		38,913,733
Total assets	$	**1,100,290**	$	1,036,013	$	988,805
Total long-term financial liabilities	$	**297,333**	$	243,260	$	245,306

Consolidated revenues for 2017 was $451,050, an increase of 15% compared to $391,406 reported for fiscal 2016, as a result of an increase in revenue from the Domestic Dry-Bulk, Product Tanker and Ocean Self-Unloader segments. Revenue of the Global Short Sea Shipping segment, which is participated in via joint ventures, is not included in the consolidated revenue figure. The Global Short Sea Shipping ventures generated revenues of $222,794 compared to $17,983 in 2016. The Company has a 50% interest in these ventures.

Net earnings from continuing operations, which excludes income from the discontinued real estate business, was $32,367 compared to $10,596 for 2016. Earnings for both years are affected by certain specific transactions or events, as follows:

- Earnings for 2016 included gains of $26,387 related to the cancellation of shipbuilding contracts and the refund of progress payments made on those contracts. The refunds and related interest was collected in full in 2016.
- Earnings for fiscal 2017 reflect a foreign currency exchange gain of $683 compared to a loss of $7,536 in 2016. The loss in 2016 was due to marking-to-market certain forward foreign exchange contracts that became ineffective as hedges for accounting purposes during the fourth quarter of that year.
- Earnings for fiscal 2017 were not subject to any impairment expenses, which in 2016 totalled $42,661. This related to impairment of the carrying value of the Domestic Dry-Bulk and Product Tanker fleets.

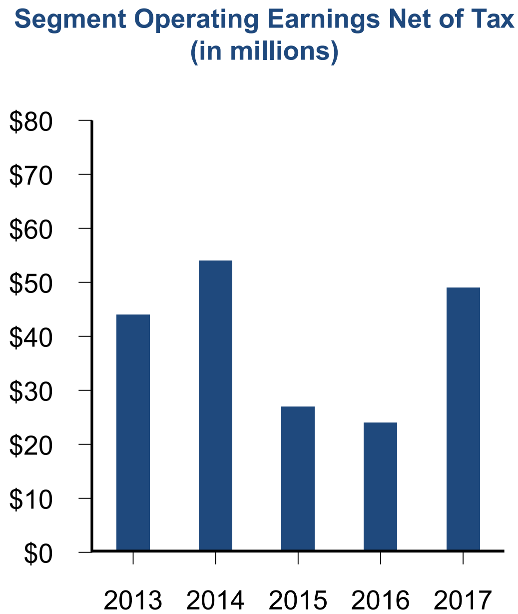
The net income impact of the items above is:

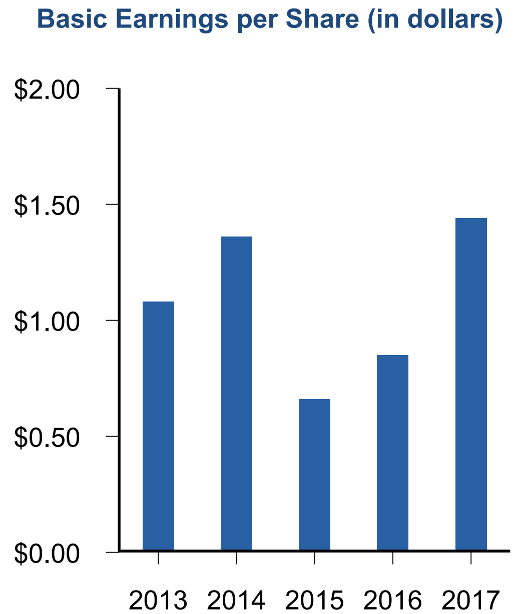
		2017		2016		Favourable (Unfavourable)
Net earnings from continuing operations	$	**32,367**	$	10,596	$	21,771
After tax impact of items outlined above	$	**(593)**	$	14,573	$	(15,166)
Net earnings from continuing operations excluding specific transactions mentioned above	$	**31,774**	$	25,169	$	6,605

Net earnings from discontinued operations reflects the results from the real estate segment for the year. There was a net loss from the operation of the properties for 2017 of $172 compared to a net income of $2,412 for 2016. The loss in 2017 was as a result of the sale of the seven remaining properties within discontinued operations and the reclassification of one property from discontinued operations to investment properties as the sale was suspended. The sale of these buildings resulted in a pre-tax gain of $28,857 (2016 - $24,396).

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 2017 was $101,632 an increase of 16% compared to the prior year. EBITDA is determined as follows:

	2017	2016
Net earnings	**$ 56,195**	$ 33,315
Adjustments to net earnings:		
Depreciation	**45,431**	46,903
Impairment expense	**—**	42,661
(Gain) loss on foreign currency forward contracts	**(683)**	7,536
Gain on cancellation of shipbuilding contracts	**—**	(26,387)
Net interest expense	**3,638**	8,682
Foreign exchange gains	**(2,260)**	(3,505)
Income tax expense (recovery)	**13,126**	(7,190)
Discontinued operations		
Gain on sale of real estate	**(28,857)**	(24,396)
Depreciation in discontinued operations	**49**	577
Income tax expense	**4,612**	4,961
Joint Ventures		
Interest expense	**2,433**	1,344
Foreign exchange loss (gain)	**911**	(625)
Depreciation	**7,037**	4,046
EBITDA	**$ 101,632**	$ 87,922





Summary of Quarterly Results

The results for the last eight quarters were as follows:

Year	Quarter		Revenue		Net Earnings (Loss)		Basic Earnings (Loss) per Share
2017	Quarter 4	$	138,749	$	13,368	$	0.34
	Quarter 3	$	136,556	$	32,768	$	0.84
	Quarter 2	$	123,918	$	29,164	$	0.75
	Quarter 1	$	51,827	$	(19,105)	$	(0.49)
2016	Quarter 4	$	130,578	$	(11,753)	$	(0.31)
	Quarter 3	$	118,228	$	38,502	$	0.99
	Quarter 2	$	99,037	$	13,261	$	0.34
	Quarter 1	$	43,563	$	(6,695)	$	(0.17)

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 on 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.

The following summarizes the trailing twelve month results on an adjusted and unadjusted basis in each of the last eight quarters:

		Trailing Twelve Months				
Year	Quarter	Revenue	Net Earnings	Basic Earnings per Share	Adjustment to Basic Earnings per Share *	Adjusted Basic Earnings per Share
2017	Quarter 4	$ 451,050	$ 56,195	$ 1.44	$ (0.62)	$ 0.82
	Quarter 3	$ 442,879	$ 31,074	$ 0.80	$ (0.03)	$ 0.77
	Quarter 2	$ 424,551	$ 36,811	$ 0.95	$ (0.22)	$ 0.73
	Quarter 1	$ 399,671	$ 20,908	$ 0.54	$ 0.13	$ 0.67
2016	Quarter 4	$ 391,406	$ 33,315	$ 0.85	$ (0.29)	$ 0.57
	Quarter 3	$ 379,999	$ 55,659	$ 1.42	$ (0.86)	$ 0.58
	Quarter 2	$ 386,848	$ 31,999	$ 0.81	$ (0.39)	$ 0.43
	Quarter 1	$ 413,147	$ 42,068	$ 1.07	$ (0.65)	$ 0.43

* The following table summarizes the adjustment to Basic Earnings per Share, by quarter, for certain items management believes are not reflective of underlying business performance.

	2015			2016				2017			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gain on shipbuilding contracts	$ (0.26)	$ —	$ —	$ (0.42)	$ —	$ (0.16)	$ —	$ —	$ —	$ —	$ —
Impairment provisions	—	—	0.03	—	—	—	0.81	—	—	—	—
Sale of real estate properties	—	—	—	—	—	(0.31)	(0.22)	—	(0.35)	(0.28)	0.01
	$ (0.26)	$ —	$ 0.03	$ (0.42)	$ —	$ (0.47)	$ 0.59	$ —	$ (0.35)	$ (0.28)	$ 0.01
Trailing adjustment to EPS				$ (0.65)	$ (0.39)	$ (0.86)	$ (0.29)	$ 0.13	$ (0.22)	$ (0.03)	$ (0.62)

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 its ship management business.

The Company’s dry-bulk fleet is the largest and most diversified dry-bulk cargo fleet operating on the Great Lakes - St. Lawrence Waterway. Varying vessel sizes and configurations enables the Company to accommodate almost every dry-bulk shipping requirement.

During 2017, the Company operated 13 self-unloading bulk carriers and 8 gearless bulk carriers in its dry-bulk fleet. Traditional gearless bulk carriers require shore-side facilities to discharge cargo and are primarily deployed in the movement of iron ore and grain.

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. The flexibility of self-unloaders enables the ships to 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 agricultural product distributors. The customer base includes leading organizations in each market sector and service relationships are typically long-term in nature.

Two new Equinox Class vessels joined the Company fleet on the Great Lakes in 2017. The *Algoma Strongfield*, the final Equinox Class gearless bulk carrier built by Nangtong Mingde Shipyard in China, joined the fleet in June and the *Algoma Niagara*, the first Equinox Class self-unloader built by Yangzijiang shipyard, was acquired in November.

In December, 2017, the Company acquired four river-class vessels from American Steamship Company. The availability of these vessels presented an opportunity to expand the domestic fleet and capacity at extremely attractive values. Two of the vessels will join the Company's domestic fleet in the upcoming navigation season and will ship salt, aggregate and other commodities while the other two, which are steamships, have several possibilities, including being repowered as motor vessels.

Iron and steel sector volumes were up 16%, reflecting higher steel prices and increased demands in both markets. Steel markets have strengthened with higher prices driving steel production levels up for North American producers. These higher prices are also due to the anticipation of the market remaining strong in 2018; however, uncertainties over potential tariffs on foreign steel imports remain. The iron ore market remains strong with pellet premiums reaching record highs as a result of an increased demand for high quality iron ore in Asia. Revenue from this sector was up 28%.

In 2017, the agricultural sector saw a decrease in both volume and revenue. An extremely dry growing season in the southern half of Alberta and Saskatchewan caused a 7% decrease in grain volumes and a 6% decrease in revenue compared to the prior year. Although the majority of the wheat harvest was high quality in 2017, the protein is the lowest it has been in the last decade. Shippers are forecasting similar volumes for 2018.

Shipments of aggregates and construction materials increased marginally compared to a year-over-year decrease last year and revenues for the sector were up 3%. The increase of aggregates is expected to continue due to several large infrastructure projects scheduled for 2018.

The Company experienced lower average trip times year-over-year in 2017 due to changes in trading patterns and as a result there was a 5% decrease in average daily earnings for the fleet compared to 2016. Daily earnings is measured by deducting all voyage expenses and fuel costs from the gross freight revenue.

Fleet Renewal

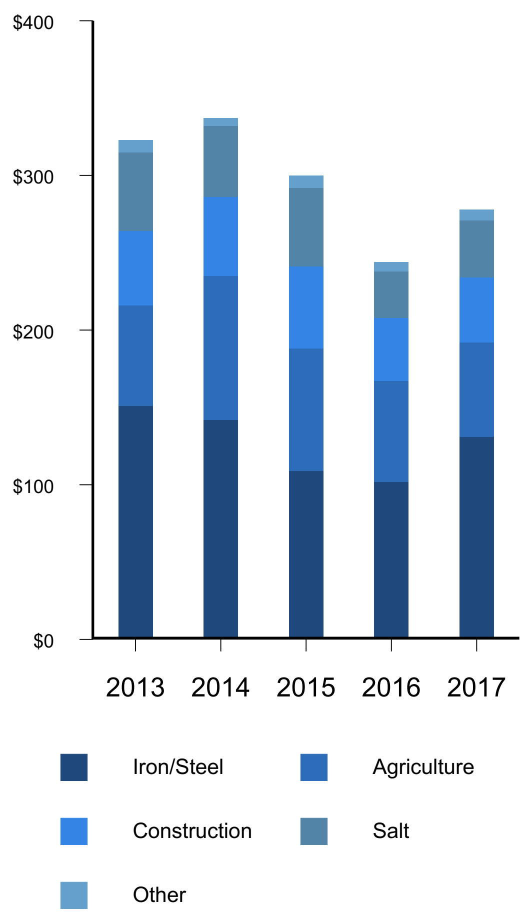
Algoma currently has development contracts in place for the construction of one new Equinox Class 650' self-unloader and four Equinox Class 740' self-unloaders. During 2017, the Company invested $128 million in progress payments on the fleet renewal program.

The Company took delivery of its first 650' self-unloader, the *Algoma Innovator,* in Croatia in December, 2017 and the ship is scheduled to begin operations in Canada in March, 2018. The vessel is the first new forward mounted boom ship to be built in 45 years; this type of boom provides greater access and flexibility for customers with its ability to deliver cargo into smaller and less accessible ports. The next 650' self-unloader, the *Algoma Intrepid*, and the three additional 740' self-unloaders to be built in Croatia are currently in progress.

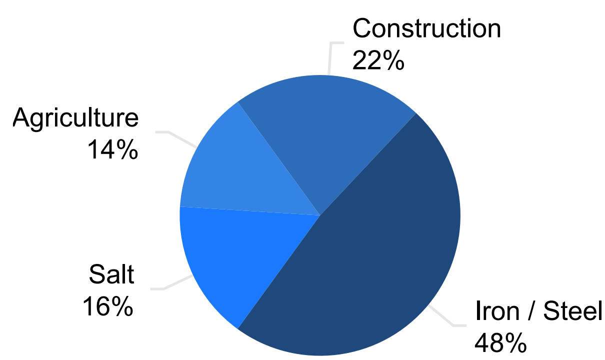
In China, the next 740' self-unloader, the *Algoma Sault*, was delivered on February 5, 2018 and is scheduled to arrive in Canada and begin operations in March, 2018.

In 2017, the *Algoma Conveyer,* the first and only Equinox self-unloader partially built by Nangtong Mingde shipyard, was acquired at auction in September, 2017 and is currently undergoing refurbishment and final construction at Yangzijiang shipyard. The vessel is expected to be completed and delivered in early 2019.

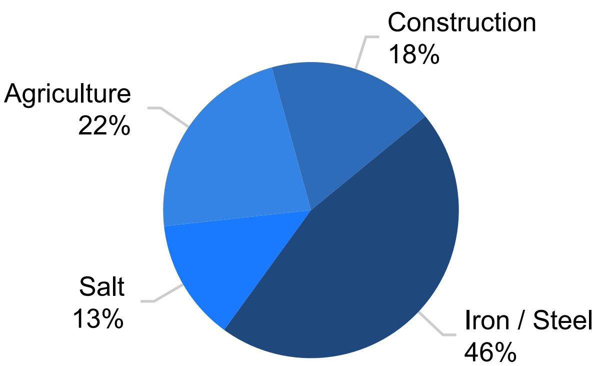
Industry Segment Revenue (in millions)



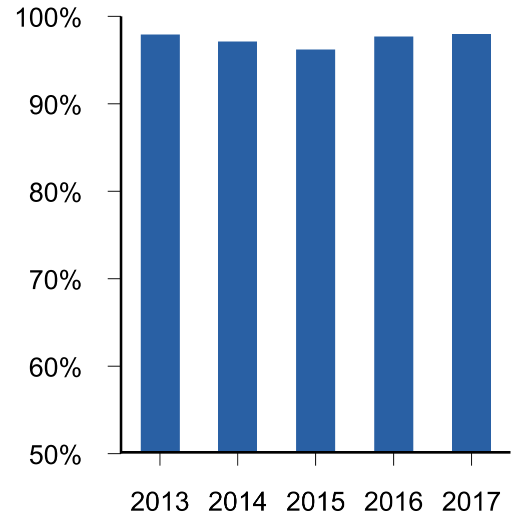
Industry Segments: (by tonnes)



Industry Segments
(by revenue days)



Fleet Availability



Domestic Dry-Bulk Financial Review		**2017**		2016		Favourable (Unfavourable)
Revenue	**$**	**278,265**	$	244,221	$	34,044
Operating expenses		**(209,178)**		(195,869)		(13,309)
Selling, general and administrative		**(10,063)**		(10,074)		11
		59,024		38,278		20,746
Depreciation		**(19,490)**		(25,479)		5,989
Impairment		**—**		(37,441)		37,441
Gain (loss) on foreign currency forward contracts		**683**		(7,536)		8,219
Gain on cancellation of shipbuilding contracts		**—**		26,387		(26,387)
Income tax (expense) recovery		**(10,567)**		4,462		(15,029)
Net earnings (loss)	**$**	**29,650**	$	(1,329)	$	30,979
Additions to property, plant, and equipment	**$**	**153,779**	$	122,305		
Total assets	**$**	**561,988**	$	468,401		

Revenues for Domestic Dry-Bulk were up 14% compared to 2016, largely as a result of a 10% increase in volumes carried and a corresponding 14% increase in revenue days. As noted above, most major commodity groups had higher volumes in 2017. Average earnings per day decreased 5% over 2016 due to longer average trip times caused by changing trade patterns.

Operating days for the fleet were up 15%, reflecting the increase in volume and the addition of two vessels during the year. Increased operating days brought operating expenses up 7% and correspondingly, direct operating costs increased 11%.

Fleet availability remained high again this year at 97.95%. The trend to improve fleet availability reflects fewer incidents or ship out of service events as focus on improved systems and performance across the fleet continues.

Improved fleet availability resulted in 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.

EBITDA for Domestic Dry-Bulk was $59,024, an increase of 54% compared to the prior year. EBITDA is determined as follows:

	2017	2016	Favourable (Unfavourable)
Net earnings (loss)	**$ 29,650**	$ (1,329)	$ 30,979
Adjustments to net earnings:			
Depreciation	**19,490**	25,479	5,989
Impairment	**—**	37,441	37,441
Gain (loss) on foreign currency forward contracts	**(683)**	7,536	8,219
Gain on cancellation of shipbuilding contracts	**—**	(26,387)	(26,387)
Income taxes	**10,567**	(4,462)	(15,029)
EBITDA	**$ 59,024**	$ 38,278	$ 20,746

A fleet impairment of $37,441 was recorded in 2016 due to the deterioration of the economic climate during that year; no further impairment provision was required in 2017.

Outlook

The outlook for the Domestic Dry-Bulk segment for 2018 is positive. Demand remains strong and we currently expect full utilization for the year. Rates have been firming, and we expect improved contract terms as a result. We have recently finalized terms for the renewal of a significant contract that includes both improved rates and a longer than average term for the renewal, both of which are positive signs in a market that was under pressure until recently. With the improved market conditions and the addition of new vessels to the fleet, we expect to see continued growth in business unit earnings.

There has been significant coverage of the NAFTA re-negotiations and recent tariff announcements on steel and aluminium imports to the US. At this point, in light of the limited information available on these matters, the impact on business unit trade patterns cannot be predicted. Broadly speaking, however, outlooks provided by our customers in these segments are generally positive.

Product Tankers

Business Segment and Markets

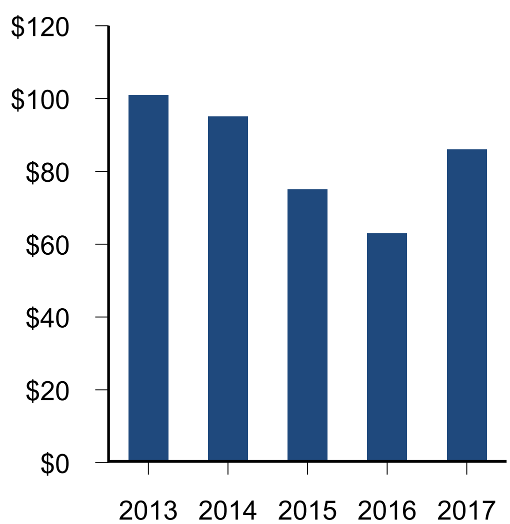
The domestic Canadian flag product tanker fleet provides safe and reliable transportation of liquid petroleum products throughout the Great Lakes, St. Lawrence Waterway and Atlantic Canada regions.

This business unit consists of six double-hull product tankers employed in Canadian flag service. Domestic customers include major oil refiners, leading wholesale distributors and large consumers of petroleum products who demand the highest levels of quality and service.

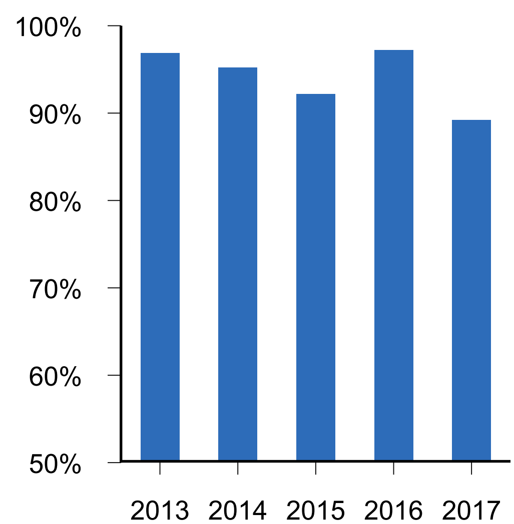
During 2017, two major oil refinery shut downs resulted in an increase in customer vessel requirements from the Company's major customer. The Company utilized a bareboat charter from June to December and several time chartered foreign flag vessels under flag waivers throughout the year in order to fulfil the demand. As a result of the increase in customer demand, the Company saw a 5% increase in vessel operating days compared to 2016 and a $23,270 increase in revenue. Unfortunately, the Company earns only a small margin on the time chartered vessels and was not able to capitalize on this high demand.

On October 21, 2017 the Canadian Merchant Services Guild ("CMSG"), which represents 54 navigation and engineering officers on the Product Tanker fleet launched a strike against the Company. By October 27, 2017, CMSG and the Company had reached an agreement ending the strike. The strike impacted approximately 30 vessel service days.

Revenue (in millions)



Fleet Availability



Product Tankers Financial Review	**2017**	2016	Favourable (Unfavourable)
Revenue	**$ 86,274**	$ 63,004	$ 23,270
Operating expenses	**(68,596)**	(41,238)	(27,358)
Selling, general and administrative	**(2,631)**	(2,511)	(120)
	15,047	19,255	(4,208)
Depreciation	**(9,614)**	(9,031)	(583)
Impairment	**—**	(5,220)	5,220
Income taxes	**(1,958)**	(634)	(1,324)
Net earnings	**$ 3,475**	$ 4,370	$ (895)
Additions to property, plant, and equipment	**$ 749**	$ 1,845	
Total assets	**$ 104,695**	$ 110,110	

Revenue for Product Tankers was up 37% on increased customer demand from the Company's major customer as noted above.

Operating expenses for the business unit increased 66% compared to the prior year. This was primarily due to the need to hire outside chartered vessels to meet increased demand and the cost of repairs. The vessel under bareboat charter in particular was more expensive to operate compared to the Company's core fleet due to a lower level of maintenance which resulted in higher supply and lube costs. Fleet availability for Product Tankers fell to 89.2% in 2017 and decreased 800 basis points compared to the prior year. The significant decrease was due to a mechanical issue on one vessel that resulted in a five month lay-up early in the year and another issue late in the year that resulted in a whole month out of service.

EBITDA for Product Tankers was $15,047, a decrease of 22% from 2016 for the reasons set out above. EBITDA is determined as follows:

	2017	2016	Favourable (Unfavourable)
Net earnings	**$ 3,475**	$ 4,370	$ (895)
Adjustments to net earnings:			
Depreciation	**9,614**	9,031	(583)
Impairment	**—**	5,220	5,220
Income taxes	**1,958**	634	(1,324)
EBITDA	**$ 15,047**	$ 19,255	$ (4,208)

A fleet impairment of $5,220 was recorded in 2016 due to the deterioration of the economic climate during that year; no further impairment provision was required in 2017.

Outlook

Normal volumes are expected from the Company's major customer as there are no refinery shutdowns planned for 2018, reducing the need to time charter additional vessels. Four of the six vessels in the segment will undertake dry-docking in 2018.

Ocean Self-Unloaders

Business Segment and Markets

The Company's interests in Ocean shipping consist of five ocean-going self-unloading vessels, a 50% interest in a sixth self-unloader and a 25% interest in a specialized ocean vessel. The five self-unloaders and one of the ships in which the Company has a joint interest, are part of the world's largest pool of ocean-going self-unloaders (the "Pool"), which at the end of 2017 totalled 19 vessels.

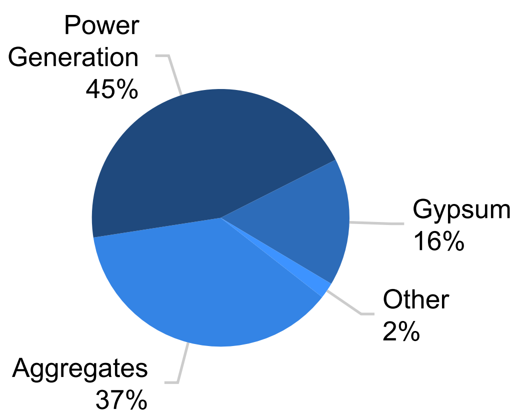
Algoma shares in the Pool's commercial results and reports a pro-rata share of Pool revenue and voyage costs (in operating expenses) for five 100% owned ships. Vessel operating expenses for these ships are recorded in operating expenses. Earnings from partially owned ships are included in the Company's joint venture, Marbulk.

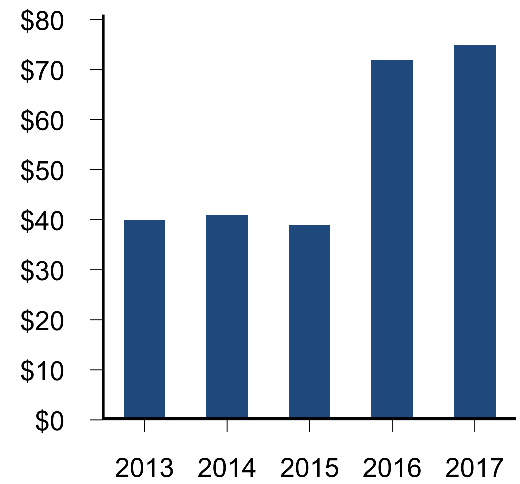
The major commodities carried by ocean-going self-unloaders include coal for power generation, crushed aggregates for construction, gypsum for wallboard manufacturing, iron ore for the steel industry and salt for winter road safety. Markets are centered in North and South America; however, activities 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 pace of economic recovery remained relatively sturdy in 2017 with overall tonnage shipped increasing marginally. The slight growth in 2017 was primarily in coal and stone shipments. Time charter revenues made up 7% of Pool revenues in 2017 compared to 4% in 2016; this increase was due to expanded requirements to supplement internal capacity from an existing customer. Time charter revenues arise when Pool vessels are chartered out for customer overflow coverage and are 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 increased 7% over 2016. Coal transportation for power generation, the second largest sector served by the Pool, also increased by 7% over 2016. The third largest market segment served by the Pool is gypsum, which continued the trend of last year, decreasing 10% over 2016 levels. Shipments of other commodities were down significantly due to decreased volumes in both the iron ore and salt segments.

Over the course of 2017, three ships belonging to the Pool partners were removed from the Pool resulting in a net reduction in the Pool from 22 to 19 ships. Algoma's Ocean Self-Unloaders business unit owns 5.5 Pool ships and shared in approximately 24% of overall Pool earnings in 2017.





Ocean Self-Unloaders Financial Review	**2017**	2016	Favourable (Unfavourable)
Revenue	**$ 74,912**	$ 72,179	$ 2,733
Operating expenses	**(45,683)**	(43,682)	(2,001)
General and administrative	**(897)**	(1,067)	170
	28,332	27,430	902
Depreciation	**(13,781)**	(12,393)	(1,388)
Income tax (expense) recovery	**(405)**	445	(850)
Earnings from joint venture	**(1,704)**	3,489	(5,193)
Net earnings	**$ 12,442**	$ 18,971	$ (6,529)
Additions to property, plant, and equipment	**$ 2,903**	$ 124,714	
Additions to property, plant, and equipment by joint venture	**$ 1,154**	$ 15,883	
Total assets	**$ 190,421**	$ 182,997	

Revenues for Ocean Self-Unloaders, reflecting the pro-rata share of Pool revenues generated by the five 100% owned ships, increased 4%. Gross revenues of the Pool decreased 4% compared to 2016 which was a combination of changing trade patterns and slightly higher volumes. Revenues for the Pool are earned in U.S. dollars. The average USD/CAD exchange rate for 2017 was 1.2978 compared to 1.3255 in 2016; Pool revenues reported by Algoma are in Canadian dollars.

Operating expenses increased 5% mainly because of dry-docking expenditures on one vessel; this overage did not qualify for capitalization. Offsetting the increase was the *Algoma Integrity* operating outside of the Pool for a portion of 2017. Algoma does not incur selling expenses on ocean self-unloader business, but instead pays a commercial fee to the Pool manager.

Earnings from joint venture reflect Algoma's 50% interest in the Marbulk joint venture. At year-end, Marbulk owned one Pool vessel and a 25% interest in a non-Pool ocean class vessel operating in European markets.

EBITDA for Ocean Self-Unloaders was $29,737 a decrease of 10% compared to the prior year. EBITDA is determined as follows:

	2017	2016	Favourable (Unfavourable)
Net earnings	**$ 12,442**	$ 18,971	$ (6,529)
Adjustments to net earnings:			
Depreciation	**13,781**	12,393	(1,388)
Joint venture depreciation	**1,970**	2,108	138
Joint venture interest expense	**708**	706	(2)
Joint venture foreign exchange loss (gain)	**1,019**	(554)	(1,573)
Income tax recovery	**(183)**	(445)	(262)
EBITDA	**$ 29,737**	$ 33,179	$ (3,442)

Outlook

The outlook for 2018 looks promising but certain challenges will remain. Revenues are expected to increase in 2018; however, general ocean rates and competition from bulkers remains a challenge for vessels in the Pool. One vessel will begin the year in planned lay-up, and a second vessel will undertake a dry-docking early in the year, which will reduce operating expenses for 2018. The Marbulk vessel *M.V. Venture* was removed from the Pool in late 2017 and will be chartered to an entity in Asia during 2018 with the possibility of sale at the end of the charter.

Global Short Sea Shipping

Business Segment and Markets

The Global Short Sea Shipping segment comprises a 50% interest in NovaAlgoma Cement Carriers ("NACC") and a 50% interest in NovaAlgoma Short Sea Carriers ("NASC"). These joint ventures with Nova Marine Carriers SA are a reflection of a strategic intent to enter the global short sea shipping sector, focusing on niche markets featuring specialized equipment or services and lacking an existing dominate player.

NACC's fleet has grown from the initial three vessels, to at year end 2017, operation of ten carriers globally with an additional three under development. Opportunities in the sector have proven to be more attractive than anticipated and as a consequence the Company's pace of investment has accelerated. Algoma has now invested $60.6 million and, with its partner, established a sizable and credible competitor in this fragmented market. The Company's strategy is focused on consolidation of the market and renewal opportunities of the global fleet of vessels to achieve more efficient operations and a reduced environmental footprint.

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.

NASC manages a short sea mini bulker fleet comprising of an average of 60 vessels, including ownership interests in 15 of these ships. Algoma has invested $37.8 million and, with its partner, grown its global footprint and established a presence in the market. The Company's strategy for NASC is focused on further establishing presence in growth markets beyond the current focus on the Mediterranean, western European and Caribbean markets, and to leverage client relationships and existing business contracts in order to access better freight rates and effectively balance customer cargo commitments against available tonnage.

The size and configuration of short sea mini bulkers allow cargo to be moved efficiently between coastal and inland ports; these mini bulkers can carry up to 15,000 dwt. The NASC fleet moves about 15 million tonnes annually in support of the agricultural, cement, construction, energy and steel industries. The majority of this volume follows traditional short sea shipping routes; however, a portion does move on trans-oceanic voyages between Europe and North America. This has strengthened Algoma's already strong position in domestic shipping and also created new opportunities for the Company to expand into industries where it is currently not a participant.

Global Short Sea Shipping Financial Review		**2017**		2016		Favourable (Unfavourable)
Revenue	**$**	**222,794**	$	17,983	$	204,811
Operating expenses		**(196,314)**		(7,313)		(189,001)
Selling, general and administrative		**(6,784)**		(576)		(6,208)
		19,696		10,094		9,602
Depreciation		**(9,616)**		(3,522)		(6,094)
Interest		**(3,450)**		(1,276)		(2,174)
Foreign exchange gain		**217**		142		75
Income tax expense		**(585)**		—		(585)
Net earnings of Joint Ventures		**1,203**		—		1,203
Net earnings	**$**	**7,465**	$	5,438	$	2,027
Company share of net earnings	**$**	**3,733**	$	2,719		
Amortization of vessel purchase price allocation		**(259)**		(177)		
	$	**3,474**	$	2,542		
Total assets	**$**	**98,425**	$	68,656		

The Company reports its interest in both NACC and NASC as joint ventures and 50% of the earnings of the business. Earnings are net of certain purchase accounting adjustments and are included with earnings from joint ventures in the statement of earnings.

Revenue for Global Short Sea Shipping was $222,794 in 2017 compared to $17,983 in 2016. The increase was as a result of the doubling of the NACC fleet and the investment in the NASC joint venture. Revenue was generated from subsidiaries of major global cement companies and a variety of industries including the agricultural, construction, energy and steel industries.

Operating expenses for 2017 was $196,314, an increase of $189,001 over 2016. The increase was due primarily to the increase in cement vessels and operating expenses for NASC, which are significantly higher than NACC as the majority of vessels are time chartered.

Operating expenses include only those costs incurred after the ships enter operation in the case of the ships acquired during the year.

Selling, general and administrative expenses, comprising mostly commercial commissions, staff and office costs and professional fees, totalled $6,784. As the segment grows more staff to support its operations are added increasing overhead. For 2016, most support activities were provided by the two partners.

Generally, it is NACC and NASC's practise to acquire vessels using bank financing to fund a portion of the purchase price. During 2017, the company paid interest of $3,450 in connection with these financings.

Outlook

The focus in 2018 will be to further expand both NACC and NASC fleets, creating a larger global footprint and increasing the segment's strength and capabilities. Focus will also be on establishing a dedicated staff and offices to lead market development. Three cement carriers are currently under development for the NACC fleet.

Real Estate - Discontinued Operations

Algoma Central Properties Inc. (“ACP”) is the discontinued real estate segment of the Company. ACP continues to own properties in Sault Ste. Marie and St. Catharines.

On February 1, 2017, the Board of Directors made a decision to retain 63 Church Street, St. Catharines, ON, which houses the Company's head office. As a result of this decision, the carrying cost of the building was reclassified from discontinued operations to property, plant and equipment effective that date. The net book value of that building at December 31, 2017 was $4,754.

On June 26, 2017 the Company decided to temporarily suspend the sale of Station Mall, the largest mall in the Sault Ste. Marie region, and Station 49, an adjacent residential apartment building. Sears Canada, which has been an anchor tenant of the shopping centre, announced on June 22, 2017 that it had filed for protection under the Companies' Creditors Arrangements Act. Sears subsequently disclaimed its lease and has vacated its space in the shopping centre. These properties have been reclassified from discontinued operations into continuing operations as Investment Properties in the Corporate segment. It is the intent of the Company that both properties will be placed on the market in the near future once a development plan for the former Sears space is set.

During 2017, the Company sold seven of the remaining properties held for sale for a pre-tax gain of $28,857. As a result of these sales, the total assets of the discontinued business at December 31, 2017 was $973, principally comprising net working capital.

Real Estate Financial Review	**2017**	2016	Favourable (Unfavourable)
Revenue	**$ 5,051**	$ 18,978	$ (13,927)
Operating expenses	**(4,036)**	(11,656)	7,620
Selling, general and administrative	**(1,405)**	(3,470)	2,065
	(390)	3,852	(4,242)
Depreciation	**(49)**	(577)	528
Income taxes	**267**	(863)	1,130
Net (loss) earnings from operations	**(172)**	2,412	(2,584)
Net earnings from sale of properties	**23,978**	20,307	3,671
Net earnings	**$ 23,828**	$ 22,719	$ 1,087
Average Occupancy	**89.6%**	92.3%	
Additions to properties	**$ 1,560**	$ 5,839	
Total assets	**$ 973**	$ 61,023	

Results for Real Estate include the operating earnings of buildings along with the net gain realized on the sale of the remaining 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 actions to liquidate the portfolio and exit the business.

Depreciation expense for 2017 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.

Revenue from Real Estate was down $13,927 and operating expenses was $4,036 compared to $11,656 in 2016, primarily as a result of the sales of properties over the course of two years.

Consolidated

Financial Review	**2017**	2016	Favourable (Unfavourable)
Revenue	**$ 451,050**	$ 391,406	$ 59,644
Operating expenses	**(333,342)**	(288,832)	(44,510)
Selling, general and administrative	**(27,859)**	(29,309)	1,450
	89,849	73,265	16,584
Depreciation of property, plant, and equipment	**(45,431)**	(46,903)	1,472
Gain on shipbuilding contracts	**—**	26,387	(26,387)
Impairment expense	**—**	(42,661)	42,661
Interest expense	**(4,843)**	(9,824)	4,981
Interest income	**1,205**	1,142	63
Foreign currency gain	**2,260**	3,505	(1,245)
Unrealized gain (loss) on foreign currency exchange contracts	**683**	(7,536)	8,219
Income tax (expense) recovery	**(13,126)**	7,190	(20,316)
Earnings of joint venture	**1,770**	6,031	(4,261)
Net earnings from continuing operations	**$ 32,367**	$ 10,596	$ 21,771

Investment Properties

The Company owns a shopping centre and apartment building located in Sault Ste. Marie, ON. During 2017, the Company decided to suspend on-going discussions regarding the sale of the shopping centre and adjacent apartment building until the uncertainty created by the Sears closure is resolved. These properties have been reclassified from discontinued operations into continuing operations as Investment Properties.

Investment Properties Financial Review	**2017**	2016	Favourable (Unfavourable)
Revenue	**$ 11,599**	$ 12,002	$ (403)
Operating expenses	**(9,885)**	(8,043)	(1,842)
Depreciation	**(1,881)**	—	(1,881)
(Loss) earnings before income taxes	**(167)**	3,958	(4,126)
Income recovery (expense)	**736**	(1,049)	1,785
Net Earnings	**$ 569**	$ 2,909	$ (2,341)

Selling, General and Administrative Expenses

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

During 2017, the Company undertook a restructuring of its shore-based work force resulting in a 10% head count reduction and certain other cost savings. Selling, general and administrative expenses for 2017, which include an investment in restructuring of $2,450, was $1,450 less than 2016 as a result of these actions.

Depreciation of Property, Plant, and Equipment

In 2017, depreciation decreased by $1,472. The depreciation expense for 2016 included $4,848 of accelerated depreciation on vessels approaching retirement.

Impairment Expense

For the year ended December 31, 2016, an impairment expense relating to vessels in the Domestic Dry-Bulk and Product Tanker segments of $42,661 was recognized due to the deterioration of economic climate. Impairment provisions were not required in 2017.

Interest Expense

Interest expense consists of the following:

	2017	2016	Increase (Decrease)
Interest expense on borrowings	**$ 16,787**	$ 15,153	$ 1,634
Amortization of financing costs	**1,671**	1,051	620
Interest on employee future benefits, net	**270**	939	(669)
Interest capitalized	**(13,885)**	(7,319)	(6,566)
	$ 4,843	$ 9,824	$ (4,981)

Total interest paid on borrowings increased by $1,634 in 2017 when compared to 2016. Amortization of financing costs increased by $620 due to the write-off of remaining deferred financial costs relating to the redemption of the 2011 debentures in 2017. Net interest expense decreased by $4,981 in 2017 when compared to 2016 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 Class vessels.

Foreign Currency Translation and Unrealized Gain (Loss) on Foreign Currency Exchange Contracts

	2017	2016	Increase (Decrease)
Gains (losses) on foreign denominated cash	**$ 2,008**	$ (1,112)	$ 3,120
Gain on return of capital from foreign subsidiary	**252**	1,831	(1,579)
Gain on long-term debt	**—**	7,747	(7,747)
Loss on shipbuilding contracts receivable	**—**	(3,870)	3,870
Loss on loan to joint venture	**—**	(1,091)	1,091
	2,260	3,505	(1,245)
Gain (loss) on foreign currency exchange contracts	**683**	(7,536)	8,219
	$ 2,943	$ (4,031)	$ 6,974

The Company designates a portion of its U.S. dollar and Euro cash balances as a hedge against certain U.S. dollar and Euro purchase commitments relating to the Equinox Class project. Gains and losses on the translation of the U.S. dollar and Euro 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 gain on the return of capital from a foreign subsidiary in 2017 and 2016, reflects the gain on U.S. dollar cash returned from the Company's non-controlled foreign investee.

In 2017, a gain on long-term debt was not recorded. In 2016, 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 loss on the shipbuilding contract receivable in 2016 relates to the translation loss on the amount due from the dispute with the Nangtong Mingde Shipyard from the date the receivable was designated as a financial asset to the date the amounts were collected. A shipbuilding contract receivable was not recorded in 2017 as the refund collection was completed in 2016.

In 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 Canadian dollar.

Foreign exchange forward contracts are utilized by the Company on certain 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 its Canadian flag domestic dry-bulk fleet. The gain 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

		2017		2016
Combined federal and provincial statutory income tax rate		**26.5%**		26.5%
Earnings (loss) before income tax from continuing operations and net earnings of joint ventures	**$**	**43,723**	$	(2,625)
Expected income tax (expense) recovery	**$**	**(11,587)**	$	696
(Increase) decrease resulting from:				
Effect of items that are not (deductible) taxable		**(2,406)**		3,205
Foreign tax rates different from statutory rate		**4,244**		4,298
Non-recoverable withholding taxes		**(990)**		(898)
Effect of transferring international assets into domestic operations		**(2,364)**		—
Reclassification from discontinued operations		**887**		—
Adjustments to prior period provision		**(1,487)**		—
Other		**577**		(111)
Actual tax (expense) recovery	**$**	**(13,126)**	$	7,190

Earnings from the Company's foreign subsidiaries are taxed in jurisdictions which have nil income tax rates.

The Canadian statutory rate for the Company for both 2017 and 2016 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 2017 were $34,710 compared to $33,572 for 2016. The increase was primarily due to improvements in net earnings from operations. The increase was offset by a loss realized on employee future benefit plans and with unrealized foreign exchange losses on the translation of financial statements of foreign operations.

The actuarial loss of $1,823 for employee future benefits, net of income tax in 2017 compared to a actuarial gain of $8,787 in 2016 was due primarily to a reduction on discount rates for liabilities.

The Company has hedged a portion of its future commitments on shipbuilding contracts with U.S. and Euro cash. The cumulative exchange differences on translation of cash held in foreign currency for 2017 was gains of $2,315 compared to gains of $3,100 for 2016. 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 2017, $564 (2016 - $2,101) of foreign exchange gains was reclassified to property, plant, and equipment.

The Company has net investment in foreign subsidiaries and joint ventures at December 31, 2017 of U.S. $169,019. The unrealized loss relating to the translation of the financial statement of foreign operations in 2017 was $21,413 compared to the loss of $9,529 in 2016. 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

	2017	2016	Increase (Decrease)
Net earnings from continuing operations	**$ 32,367**	$ 10,596	$ 21,771
Operating activities	**$ 62,765**	$ 90,088	$ (27,323)
Investing activities	**$ (200,469)**	$ (215,100)	$ 14,631
Financing activities	**$ 30,379**	$ (3,583)	$ 33,962
Cash from discontinued operations	**$ 49,898**	$ 53,089	$ (3,191)

Operating Activities

Net cash generated from operating activities in 2017 decreased by $27,323 from 2016. The decrease was a result of a loss in net change in non-cash operating working capital and income taxes. These decreases were offset by a significant improvement in net earnings from continuing operations of the business segments.

Investing Activities

Net cash used in investing activities was primarily for the investments in NASC and costs related to capitalized dry-docking costs on certain vessels, instalments on new Equinox Class self unloaders, and the purchase of four river-class vessels.

Net cash used in investing activities in 2016 include payments related to the purchase of ocean self-unloading bulkers, instalments on new Equinox Class vessels, investments in NACC and costs related to capitalized dry-docking costs on certain vessels.

Retired vessels were sold in each of 2017 and 2016 for net proceeds of $585 and $633, respectively.

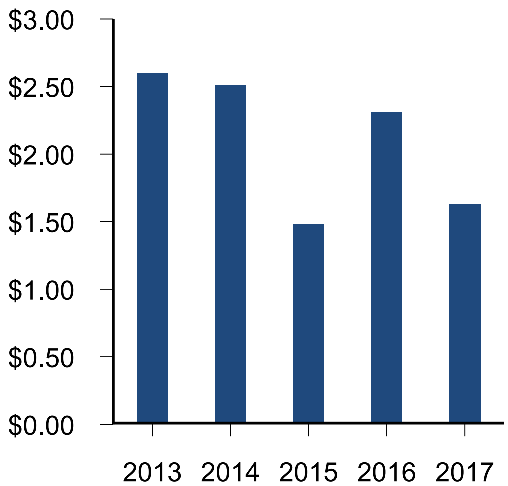
Financing Activities

Included in both periods are payment of interest on borrowings and the payment of dividends to shareholders. Dividends were paid to shareholders at $0.32 per common share in 2017 and $0.28 in 2016.

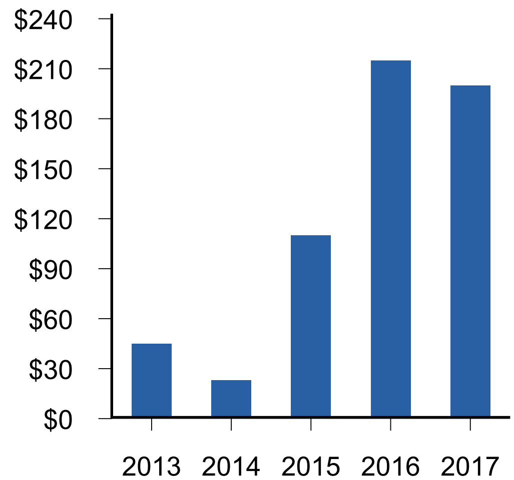
In 2017, the Company redeemed the convertible unsecured subordinated debentures due March 31, 2018 (the "2011 Debentures"). As the 2011 Debentures were redeemed without conversion, the equity component relating to the 2011 Debentures in the amount of $4,630 was transferred to Contributed Surplus. To fund the redemption, the Company used its new convertible unsecured subordinated debentures. The new debentures mature in June 2024 and will bear interest at an annual rate of 5.25%.

During the fourth quarter of 2017 the Company conducted a substantial issuer bid that resulted in the Company repurchasing and cancelling 361,418 common shares for a total cost, including costs to implement the bid, of $5,920.

Cash Generated From Operations per Share (in dollars)



Cash Used in Investing Activities (in millions)



Capital Resources

The Company has cash on hand of $68,860 at December 31, 2017. Available credit facilities along with projected cash from operations for 2018 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 Company maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs. In 2016, the Company renewed and amended its revolving credit Bank Facility (the "Facility") . The Facility expires July 15, 2020 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, 2017, the Company had $45,000 Canadian dollar and $53,043 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, 2017, the Company was in compliance with all of its covenants.

Labour Update

The majority of Algoma's shipboard employees, along with hourly employees of Algoma Ship Repair 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 expire on July 31, 2021.

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 is underway.

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.

Normal Course Issuer Bid

On January 23, 2018, the Company filed a notice of intention to make a normal course issuer bid with the TSX advising of its intention to purchase, through the facilities of the TSX, up to 1,927,615 of its Common Shares representing approximately 5% of the 38,552,315 Shares which were issued and outstanding as at the close of business on January 16, 2018 (the "NCIB").

Subject to prescribed exceptions, the Company may purchase up to 1,838 Common Shares per day, representing 25% of the average daily trading volume of 7,353 common shares per day during the six months ending December 31, 2017. The Company may buy back common shares anytime during the 12-month period beginning on January 29, 2018 and ending on January 28, 2019, or on such earlier date as the Company may complete its purchases pursuant to the NCIB, or provide notice of termination. Share purchases under the NCIB will be conducted through the facilities of the TSX and other Canadian marketplaces/alternative trading systems. The actual number of shares purchased, and the timing of any such purchases, will be determined by the Company, in accordance with the rules of the TSX.

The Company is conducting the NCIB because management believes that purchases under the NCIB constitute a desirable use of its funds on the basis that recent market prices of the Common Shares do not, and at certain times during the course of the NCIB may not, fully reflect the value of the Company's business and future business prospects.

The NCIB is being conducted through Cormark Securities Inc.

A copy of the NCIB notice, as amended, may be obtained without charge by contacting the Company.

Contingencies and Commitments

For information on contingencies and commitments, please refer to Notes 30 and 31 of the consolidated financial statements for the years ending December 31, 2017 and 2016. There have been no significant changes in the items presented since December 31, 2016.

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 2017 and 2016.

Three-Month Results Ending December 31, 2017 and 2016

		2017		2016		Favourable (Unfavourable)
Revenues						
Domestic Dry-Bulk	**$**	**89,346**	$	86,550	$	2,796
Product Tankers		**26,697**		19,609		7,088
Ocean Self-Unloaders		**19,838**		21,233		(1,395)
		135,881		127,392	$	8,489
Investment Properties		**2,868**		3,186		(318)
	$	**138,749**	$	130,578	$	16,978
Operating earnings (loss) net of income tax						
Domestic Dry-Bulk						
Operating earnings, net of income tax	**$**	**15,312**	$	16,465		(1,153)
Impairment expense		**—**		(27,519)		27,519
Unrealized loss on foreign currency contracts		**(510)**		(5,539)		5,029
		14,802		(16,593)		31,395
Product Tankers						
Operating earnings, net of income tax		**643**		3,076		(2,433)
Impairment expense		**—**		(3,837)		3,837
		643		(761)		1,404
Ocean Self-Unloaders		**4,342**		5,692		(1,350)
Global Short Sea Shipping		**945**		416		529
Segment operating earnings (loss), net of income tax		**20,732**		(11,246)		31,978
Corporate office		**(3,028)**		(3,782)		754
Not specifically identifiable to segments:						
Investment properties		**512**		1,266		(754)
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities		**323**		(19)		342
Interest expense, net		**(737)**		(2,607)		1,870
Interest income		**306**		1,142		(836)
Income tax expense		**(4,210)**		(3,974)		(236)
Net earnings (loss) from continuing operations	**$**	**13,898**	$	(19,220)	$	33,118
Basic earnings (loss) per common share	**$**	**0.36**	$	(0.49)	$	0.85

The Domestic Dry-Bulk segment results before provisions for the 2017 fourth quarter was marginally below the previous year's fourth quarter due to more severe weather conditions in December. The results for the Product Tanker segment for the 2017 fourth quarter decreased over last year due to new contract rates with Imperial Oil Limited, the segment's largest customer, and the temporary removal of the *Algoma Hansa* from operations for mechanical repairs. The Ocean Self-Unloaders segment results declined slightly in the fourth quarter of 2017 due primarily to the removal of *M.V. Venture* from the Pool. Global Short Sea Shipping saw an increase in earnings in the fourth quarter in 2017 compared to 2016 as a result of the addition of NASC to the segment whereas last year the earnings were based solely on results from NACC.

Critical Accounting Estimates

The Company's significant accounting policies are described in Note 4 to the consolidated financial statements. Some of these accounting policies require management to make estimates and assumptions about matters that are uncertain at the time the estimates and assumptions are made. Management believes that the estimates are reasonable; however, different estimates could potentially have a material impact on the 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 23 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 23 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 2017, the Company's assumed rate of compensation increases for purposes of calculating the current service cost that is included in the net benefit cost incurred, remained at 3.0% to 2020 and to 2.5% thereafter.

New Accounting Standards Applied

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 or after January 1, 2017.

Income Taxes

In January 2016 the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments were effective and applied for the annual fiscal period beginning January 1, 2017.

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. Algoma has elected to adopt the new standard on the effective date using the 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 period 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.

IFRS 15 will principally affect the timing of revenue recognition for transactions involving multiple-element arrangements (distinct goods or services in a bundled price or deliveries of multiple services that occur at different points in time and/or over different periods of time). Similarly, the measurement of total contract acquisition costs to be recognized in operating expenses over time and contract fulfillment costs recognized over the life of the contract.

For marine operations, the Company currently records revenue on a percentage of completion basis, and revenue is recognized rateably over the time that the service is provided. Based on the Company's preliminary assessment completed to date, essentially all of the Company's revenue is earned over time as the customer simultaneously receives and consumes the benefits of the services the Company performs. Consequently, revenue recognition is not expected to vary materially under the new standard compared with the percentage of completion approach used currently. Certain components of revenue, particularly demurrage (increases to revenue) and despatch (decreases to revenue) are currently recognized only on completion of a contract when such amounts can be measured and this is not expected to change. Based on the Company's preliminary assessment, other forms of revenue, including management fees and revenue from real estate rentals, are not expected to change.

Under the new standard, the Company is required to identify and measure portions of a sales price that can be considered to be variable consideration where such measurement can be made. Such amounts are to be recorded and recognized over the term of the contract and allocated to the performance obligations to which they related provided it is highly probable that such estimates and allocations will not be subject to material reversals or adjustments over the term of the contract. Based on the Company’s preliminary assessment, while certain portions of the contract prices in many contracts have a variable component, notably inflation protection clauses and fuel price adjustment clauses, the Company does not believe that the high probability standard can be met and therefore does not expect a material change as a result of this section in 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.

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, 2017. 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, 2017. Management determined that there were no material weaknesses in the Company's internal controls over financial reporting as of December 31, 2017. There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2017, 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, 2017, 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, 2017, 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, 2017, the net investment in U.S. dollar foreign subsidiaries was $169,019 and the amount used as a hedge was $95,000 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 its 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, 2017 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €78,662 (2016 - €97,170) and a fair value loss of $7,377 (2016 - $12,592), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $24,840 (2016 -

$97,148) and fair value loss of $663 (2016 - gain of $5,055). The contract maturities are as follows: 2018 - €10,840, U.S. - $78,662; 2019 - €14,000, U.S. - nil.

Return on Capital Employed (ROCE)

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

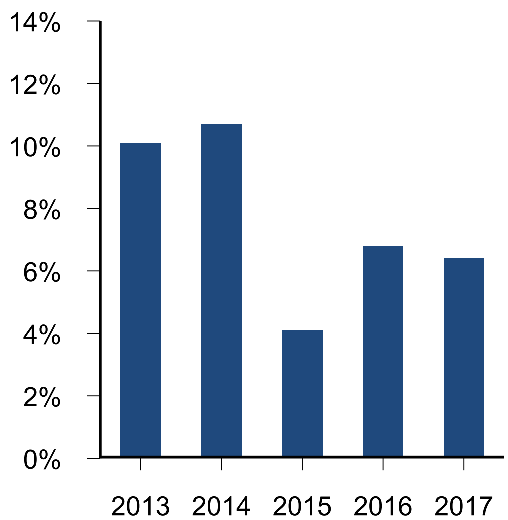
The returns on capital employed over the last five years of the Company ranged from 2.5% to 6.3%.

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 2017 was 6.4% versus 6.8% for 2016 and it has averaged 7.6% over the five years ended December 31, 2017.

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

Adjusted Return on Capital Employed



Contractual Obligations

The table below provides aggregate information about the Company's contractual obligations at December 31, 2017 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	$ 48,907	$ 169,088	$ 79,338	$ —	$ 297,333
Capital asset commitments	61,201	144,851	—	—	206,052
Dividends payable	565	—	—	—	565
Interest payments on long-term debt	8,948	17,896	4,847	—	31,691
Employee future benefit payments	837	1,948	1,111	47	3,943
	$ 120,458	$ 333,783	$ 85,296	$ 47	$ 539,584

The capital asset commitments relate to the contracts in place for the construction of one new Equinox Class 650' self-unloader, 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 2018.

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 the Company's 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 $199,148 for the construction of six Equinox Class vessels with delivery dates currently estimated to extend through 2019. 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

Marine transportation is 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.

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 (SOx and NOx), greenhouse gases and marine protected areas continue to be 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 meet the stringent ECA SOx limits. 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 NOx emissions for new engines installed after January 1, 2016. Cost and availability of this 'Tier III NOx' compliant equipment for new vessels constructed after 2016 may represent a risk to the Company.

Mandatory energy efficiency plans and greenhouse gas (GHG) reporting have been implemented by the International Maritime Organization (IMO) and further measures to reduce global GHG emissions from the marine sector are under discussion. Canada has put in place plans to price carbon pollution. 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 for 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 with operating limitations suitable for the Company's vessels that operate in the Great Lakes. The current imposition of unachievable ballast water regulations 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 its 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 current knowledge of the regulatory environment is maintained.

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 could affect the profitability of these vessels.

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

Drops or significant increases in water levels on the Great Lakes - St. Lawrence Waterway, 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 2017, all five Great Lakes were well above their long term water level averages. This trend is expected to continue into the 2018 season. Lake Ontario reached its all time record for high water level during the late spring and early summer months. During that period the lake level was 1.6 metres above previous highs. High water levels on Lake Ontario resulted in record sustained outflows in the Montreal to Lake Ontario section of the St. Lawrence Waterway causing restrictions placed on navigation from late spring to early fall of 2017.

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.

Regarding the future impacts with respects to climate change, the expectation is that climate change could result in more extreme weather events. Including would be increased frequency of gales and storms with longer duration and stronger wind forces. An overall trend towards less ice on the Great Lakes could result in the opportunity of a longer shipper season but with the propensity of more/greater storms, greater overall evaporation due to more open water and increase snowfall. Climate change theory and experience states that there could be more extremes in both temperature and rainfall. High water and low water levels both can negatively effect operations. Further concerns would be older marine infrastructure's ability to withstand more extreme weather.

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
March 12, 2018

Peter D. Winkley, CPA, CA
Chief Financial Officer
March 12, 2018

Deloitte.

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

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, 2017 and 2016, 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Algoma Central Corporation as at December 31, 2017 and 2016 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
March 12, 2018

Consolidated Statements of Earnings
Years ended December 31, 2017 and 2016
(In thousands of dollars, except per share data)

	Notes	2017	2016 Note 17
Revenue	33	$ 451,050	$ 391,406
Expenses			
Operations	33	333,342	288,832
Selling, general and administrative		27,859	29,309
		361,201	318,141
		89,849	73,265
Depreciation of property, plant, and equipment	33	(45,431)	(46,903)
Gain on shipbuilding contracts	9	—	26,387
Impairment expense	16	—	(42,661)
Interest expense	10	(4,843)	(9,824)
Interest income		1,205	1,142
Foreign currency gain	11	2,260	3,505
Unrealized gain (loss) on foreign currency	21	683	(7,536)
		43,723	(2,625)
Income Tax (Expense) Recovery	12	(13,126)	7,190
Net Earnings of Joint Ventures	8	1,770	6,031
Net Earnings from Continuing Operations		32,367	10,596
Net Earnings from Discontinued Operations	14	23,828	22,719
Net Earnings		$ 56,195	$ 33,315
Basic Earnings per Share			
Continuing operations	26	$ 0.83	$ 0.27
Discontinued operations		$ 0.61	$ 0.58
		$ 1.44	$ 0.85
Diluted Earnings per Share			
Continuing operations	26	$ 0.78	$ 0.22
Discontinued operations		$ 0.54	$ 0.52
		$ 1.32	$ 0.74

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings
Years ended December 31, 2017 and 2016
(In thousands of dollars)

	2017	2016
Net Earnings	**$ 56,195**	$ 33,315
Other Comprehensive (Loss) Earnings		
Items that may be subsequently reclassified to net earnings:		
Unrealized loss on translation of financial statements of foreign operations	**(21,413)**	(9,529)
Unrealized gain on hedging instruments, net of income tax	**2,315**	3,100
Foreign exchange gains on purchase commitment hedge reserve, net of income tax, transferred to property, plant, and equipment	**(564)**	(2,101)
Items that will not be subsequently reclassified to net earnings:		
Employee future benefits actuarial (loss) gain, net of income tax	**(1,823)**	8,787
	(21,485)	257
Comprehensive Earnings	**$ 34,710**	$ 33,572

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets
December 31, 2017 and 2016
(In thousands of dollars)

	Notes	December 31 2017	2016
Assets			
Current			
Cash		**$ 68,860**	$ 130,039
Accounts receivable	**13**	**64,184**	52,172
Income taxes recoverable		**14,967**	612
Assets of discontinued operations	**14**	**973**	61,023
Other current assets	**15**	**12,998**	13,159
		161,982	257,005
Employee Future Benefits	**23**	**12,485**	13,517
Property, Plant, and Equipment	**16**	**769,845**	660,251
Investment Properties	**17**	**21,959**	—
Goodwill and Intangible Assets	**18**	**15,831**	11,591
Investment in Joint Ventures	**8**	**103,932**	79,405
Other Assets	**19**	**14,256**	14,244
		$ 1,100,290	$ 1,036,013
Liabilities			
Current			
Accounts payable and accrued charges	**20**	**$ 69,622**	$ 76,052
Current portion of long-term debt	**24**	**48,907**	—
Income taxes payable		**341**	515
Liabilities of discontinued operations	**14**	**1,488**	15,830
Other current liabilities	**21**	**8,852**	1,661
		129,210	94,058
Other Long-Term Liabilities	**22**	**4,925**	11,275
Deferred Income Taxes	**12**	**38,638**	25,435
Employee Future Benefits	**23**	**23,960**	23,140
Long-Term Debt	**24**	**243,097**	240,555
		310,620	300,405
Commitments	**30**		
Shareholders' Equity			
Share Capital	**26**	**8,268**	8,344
Contributed Surplus		**10,703**	11,917
Convertible Debentures	**25**	**2,309**	4,630
Accumulated Other Comprehensive Loss	**27**	**(23,507)**	(3,845)
Retained Earnings		**662,687**	620,504
		660,460	641,550
		$ 1,100,290	$ 1,036,013

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, 2017 and 2016
(In thousands of dollars)

	Share Capital (Note 26)	Contributed Surplus and Convertible Debentures (Note 25)	Accumulated Other Comprehensive Earnings (Loss) (Note 27)	Retained Earnings	Total Equity
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
Net earnings	—	—	—	56,195	56,195
Dividends	—	—	—	(12,189)	(12,189)
Repurchase and cancellation of common shares	(76)	(5,844)	—	—	(5,920)
Debenture issue	—	2,309	—	—	2,309
Other comprehensive loss	—	—	(19,662)	(1,823)	(21,485)
Balance at December 31, 2017	$ 8,268	$ 13,012	$ (23,507)	$ 662,687	$ 660,460

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016
(In thousands of dollars)

	Notes	2017	2016
			Note 17
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Net earnings from continuing operations		$ 32,367	$ 10,596
Earnings of joint ventures	8	(1,770)	(6,031)
Distributions received from joint ventures		3,096	6,515
Items not affecting cash			
Depreciation of property, plant, and equipment	33	45,431	46,903
Depreciation of intangible assets		3,030	721
Gain on cancellation of shipbuilding contracts	9	—	(26,387)
Impairment of vessels	16	—	42,661
Other	28	14,440	9,063
Net change in non-cash operating working capital	28	(12,281)	6,817
Income taxes		(18,024)	2,343
Employee future benefits paid		(3,524)	(3,113)
Net cash generated from operating activities		62,765	90,088
Investing			
Additions to property, plant, and equipment	33	(164,472)	(221,008)
Additions to investment properties	17	(213)	—
Investment in joint ventures, net of distributions		(36,369)	(84,185)
Proceeds from shipbuilding contracts	9	—	89,460
Proceeds on sale of property, plant, and equipment		585	633
Net cash used in investing activities		(200,469)	(215,100)
Financing			
Interest paid		(15,728)	(15,008)
Interest received		1,205	23,768
Proceeds of long-term debt		206,408	70,305
Repayments on long-term debt		(143,975)	(71,753)
Repurchase of common shares	26	(5,920)	—
Dividends paid		(11,611)	(10,895)
Net cash generated (used) in financing activities		30,379	(3,583)
Net Change in Cash from Continuing Operations		(107,325)	(128,595)
Cash Provided from Discontinued Operations	14	49,898	53,089
Net Change in Cash		(57,427)	(75,506)
Effects of Exchange Rate Changes on Cash Held in Foreign Currencies		(3,752)	(5,017)
Cash, Beginning of Period		130,039	210,562
Cash, End of Period		$ 68,860	$ 130,039

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, 2017 and 2016 comprise the Company, its subsidiaries and the Company's interest in associated and jointly controlled entities.

The principal subsidiaries are Algoma Shipping Ltd., Algoma International Shipholdings Ltd., Algoma Tankers Limited and Algoma Central Properties Inc. The principal jointly controlled entities are Marbulk Canada Inc. (50%), NovaAlgoma Cement Carriers Limited (50%) and NovaAlgoma Short-Sea Holdings Ltd. (50%). In addition, Algoma Shipping Ltd. and Marbulk Canada Inc. are members 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.

Algoma Central Corporation owns and operates the largest fleet of dry and liquid bulk carriers operating on the Great Lakes – St. Lawrence Waterway. The Company's Canadian flag fleet consists of self-unloading dry-bulk carriers, gearless dry-bulk carriers and product tankers. The Company also has five 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 vessel fleet. The dry-bulk vessels carry cargoes of raw materials such as iron ore, grain, 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 vessels owned by other ship owners.

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

The Ocean Self-Unloaders marine transportation segment includes ownership of five ocean-going self-unloading vessels, a 50% interest in a sixth self-unloader and a 25% interest in a specialized ocean vessel. The ocean vessels are engaged in the carriage of dry-bulk commodities in worldwide trades.

The Global Short Sea Shipping segment includes the Company's 50% interests, through joint ventures, in NovaAlgoma Cement Carriers Limited and NovaAlgoma Short-Sea Holdings Ltd.

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"). 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 March 5, 2018.

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.

Investment Properties

Investment properties comprise a commercial and residential property held to earn rental income. Investment properties are measured at cost less accumulated depreciation. Real estate assets, including site improvements, are amortized on a straight-line basis over their useful lives, which the Company initially estimates to be 35 years.

Tenant improvements include costs incurred to meet the Company's lease obligations and are classified as either tenant improvements owned by the landlord or tenant incentives. When the obligation is determined to be an improvement that benefits the landlord and is owned by the landlord, the improvement is accounted for as a capital expenditure and included in the carrying amount of investment properties in the consolidated balance sheets.

Leasing costs include initial direct costs associated with leasing activities such as commissions. These costs are included in the carrying amount of investment properties in the consolidated balance sheets.

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.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight line basis over their estimated useful lives.

Assets Held for Sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction, available for immediate sale in present condition and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to dispose.

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

Revenue is only recognized when 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. 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 at applicable income tax rate for the associated jurisdiction. 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.

Convertible Debentures

The convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. The conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

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), investment in joint ventures, goodwill and intangible asset, and investment properties 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 gearless bulker fleet levels for the domestic dry-bulk segment.
2. Segregated domestic dry-bulk assets.
3. At the fleet level for the product tanker segment, excluding the bunkering vessel.
4. The bunkering vessel.
5. At the fleet level for the ocean shipping segment.
6. Investments in joint ventures.
7. Each individual investment property.
8. Corporate 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

APPLIED

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 were effective and applied for the annual fiscal period beginning January 1, 2017.

Income Taxes

In January 2016 the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments were effective and applied for the annual fiscal period beginning January 1, 2017.

6. NEW ACCOUNTING STANDARDS NOT YET APPLIED

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.

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. Algoma has elected to adopt the new standard on the effective date using the 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 period 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.

IFRS 15 will principally affect the timing of revenue recognition for transactions involving multiple-element arrangements (distinct goods or services in a bundled price or deliveries of multiple services that occur at different points in time and/or over different periods of time). Similarly, the measurement of total contract acquisition costs to be recognized in operating expenses over time and contract fulfillment costs recognized over the life of the contract.

For marine operations, the Company currently records revenue on a percentage of completion basis, and revenue is recognized rateably over the time that the service is provided. Based on the Company's preliminary assessment completed to date, essentially all of the Company's revenue is earned over time as the customer simultaneously receives and consumes the benefits of the services the Company performs. Consequently, revenue recognition is not expected to vary materially under the new standard compared with the percentage of completion approach used currently. Certain components of revenue, particularly demurrage (increases to revenue) and despatch (decreases to revenue) are currently recognized only on completion of a contract when such amounts can be measured and this is not expected to change. Based on the Company's preliminary assessment, other forms of revenue, including management fees and revenue from real estate rentals, are not expected to change.

Under the new standard, the Company is required to identify and measure portions of a sales price that can be considered to be variable consideration where such measurement can be made. Such amounts are to be recorded and recognized over the term of the contract and allocated to the performance obligations to which they related provided it is highly probable that such estimates and allocations will not be subject to material reversals or adjustments over the term of the contract. Based on the Company's preliminary assessment, while certain portions of the contract prices in many contracts have a variable component, notably inflation protection clauses and fuel price adjustment clauses, the Company does not believe that the high probability standard can be met and therefore does not expect a material change as a result of this section in the new standard.

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.

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

7. BUSINESS ACQUISITION

On April 18, 2017, the Company entered into a new business venture with Nova Marine Holdings SA ("Nova") of Lugano, Switzerland to create a global fleet focused on short-sea dry-bulk shipping. The Company, through a foreign subsidiary, owns 50% of the short-sea shipping business, which operates under the name NovaAlgoma Short-Sea Carriers ("NASC").

Under the terms of the agreement, Nova transferred all short-sea commercial contracts to NASC, then transferred its interest in NASC along with its interests in any dry-bulk vessels of less than 15,000 dwt to a newly formed entity, NovaAlgoma Short-Sea Holding Limited ("NASH"). The Company acquired a 50% interest in NASH from Nova for a total consideration of U.S. $28,721 and will account for it using the equity method.

The investment in NASH comprises the NASC commercial platform, its book of business and an interest in a fleet of 15 short-sea mini bulkers ranging in size from 5,750 dwt to 14,700 dwt. Six of these vessels are wholly owned by NASH and the remaining nine vessels are 50% owned. NASC is also engaged in the management of short-sea vessels on behalf of other owners and actively charters vessels to meet the commercial needs of the business. At the time of the Company's acquisition, NASC managed a fleet of 57 short-sea vessels on behalf of other owners.

The allocation of the initial cash consideration of $38,420 (U.S. $28,721) for accounting purposes is as follows:

Cash	$	305
Other current assets		2,204
Property, plant, and equipment		20,132
Investment in joint ventures		12,536
Accounts payable and accrued charges		(1,825)
Long term debt		(9,631)
Total identifiable assets		23,721
Identifiable intangible assets		5,083
Goodwill		9,616
Total cash consideration paid	$	38,420

The goodwill recognized is attributable to the commercial platform and assembled workforce already in place at the time of acquisition. The customer list comprises the value of the identifiable intangible assets and is depreciable over a ten year period.

8. 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, a 50% interest in NovaAlgoma Cement Carriers Limited, ("NACC") which owns and operates pneumatic cement carriers to support infrastructure projects worldwide, and a 50% interest in NovaAlgoma Short-Sea Carriers, ("NASC") which owns and manages short-sea dry-bulk vessels in global markets.
The revenues, expenses and net earnings of the joint ventures by segment for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Revenue	**$ 15,636**	**$ 222,794**	$ 25,220	$ 17,983
Operating expenses	**(11,460)**	**(196,314)**	(13,808)	(7,313)
Gain on sale of vessels	**—**	**—**	314	—
General and administrative	**(556)**	**(6,784)**	(628)	(576)
Depreciation	**(3,940)**	**(9,616)**	(4,216)	(3,522)
Interest expense	**(1,416)**	**(3,450)**	(1,412)	(1,276)
Foreign exchange (loss) gain	**(2,038)**	**217**	1,108	142
Earnings before income taxes	**(3,774)**	**6,847**	6,578	5,438
Net earnings of joint ventures	**—**	**1,203**	—	—
Income tax recovery (expense)	**366**	**(585)**	400	—
Net earnings	**$ (3,408)**	**$ 7,465**	$ 6,978	$ 5,438
Company share of net earnings	**$ (1,704)**	**$ 3,733**	$ 3,489	$ 2,719
Amortization of vessel purchase price allocation	**—**	**(259)**	—	(177)
	$ (1,704)	**$ 3,474**	$ 3,489	$ 2,542

The Company's total share of net earnings of the jointly controlled operations by segment for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Ocean Self-Unloaders	**$ (1,704)**	$ 3,489
Global Short Sea Shipping	**3,474**	2,542
	$ 1,770	$ 6,031

The assets and liabilities of the joint ventures by segment at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Cash	**$ 3,730**	**$ 10,187**	$ 8,828	$ 10,639
Other current assets	**2,314**	**38,053**	5,166	23,331
Income taxes recoverable	**—**	**22**	—	—
Property, plant, and equipment	**33,640**	**237,215**	37,888	159,569
Investment in joint ventures	**—**	**3,608**	—	—
Intangible asset	**924**	**—**	—	—
Other assets	**30**	**35,255**	—	—
Deferred tax asset	**—**	**—**	140	—
Other current liabilities	**(1,136)**	**(56,895)**	(2,036)	(13,342)
Due to owners	**(28,488)**	**—**	(28,488)	—
Long-term debt	**—**	**(115,135)**	—	(47,703)
Other long-term liabilities	**—**	**(909)**	—	—
Deferred income taxes	**—**	**(880)**	—	—
Net assets of jointly controlled operations	**$ 11,014**	**$ 150,521**	$ 21,498	$ 132,494
Company share of net assets	**$ 5,507**	**$ 75,261**	$ 10,749	$ 66,247
Goodwill and other purchase price adjustments	**—**	**23,164**	—	2,409
Company share of joint venture	**$ 5,507**	**$ 98,425**	$ 10,749	$ 68,656

The Company's net investment in the jointly controlled operations by segment at December 31, 2017 and 2016 are as follows:

	2017	2016
Ocean Self-Unloaders	**$ 5,507**	$ 10,749
Global Short Sea Shipping	**98,425**	68,656
	$ 103,932	$ 79,405

9. GAIN ON CANCELLATION OF SHIPBUILDING CONTRACTS

During 2016, the Company resolved the dispute with Nantong Mingde Heavy Industries Co. Ltd. involving four shipbuilding contracts. All construction instalments made by the Company were refunded with interest resulting in a net gain consisting of the following components:

		2016
Foreign exchange gain	$	22,092
Interest income on instalments		22,626
Write-off of capitalized costs relating to ship construction		(18,331)
Gain on cancellation of shipbuilding contracts		26,387
Income tax expense		(4,065)
	$	22,322

10. INTEREST EXPENSE

The components of interest expense are as follows:

		2017		2016
Interest expense on borrowings	**$**	**16,787**	$	15,153
Amortization of financing costs		**1,671**		1,051
Interest on employee future benefits, net		**270**		939
Interest capitalized on vessels under construction		**(13,885)**		(7,319)
	$	**4,843**	$	9,824

11. NET GAIN ON FOREIGN CURRENCY TRANSLATION

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

		2017		2016
Gains (losses) on foreign denominated cash	**$**	**2,008**	$	(1,112)
Gain on return of capital from foreign subsidiary		**252**		1,831
Gain on long-term debt		**—**		7,747
Loss on shipbuilding contracts receivable		**—**		(3,870)
Loss on loan to joint venture		**—**		(1,091)
	$	**2,260**	$	3,505

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.

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

12. INCOME TAXES

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

	2017	2016
Current tax expense	$ (5,761)	$ (12,554)
Deferred tax (expense) recovery	(7,365)	19,744
	$ (13,126)	$ 7,190

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

	2017	2016
Combined federal and provincial statutory income tax rate	26.5%	26.5%
Earnings (loss) before income tax from continuing operations and net earnings of joint ventures	$ 43,723	$ (2,625)
Expected income tax (expense) recovery	$ (11,587)	$ 696
(Increase) decrease resulting from:		
Effect of items that are not (deductible) taxable	(2,406)	3,205
Foreign tax rates different from statutory rate	4,244	4,298
Non-recoverable withholding taxes	(990)	(898)
Effect of transferring international assets into domestic operations	(2,364)	—
Reclassification from discontinued operations	887	—
Adjustments to prior period provision	(1,487)	—
Other	577	(111)
	$ (13,126)	$ 7,190

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

	2017	2016
Unrealized gains on hedging instruments	$ 1,281	$ 424
Actuarial (losses) gains on employee future benefits	(663)	3,168
	$ 618	$ 3,592

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

December 31, 2017	Opening balance	Transferred from Discontinued Operations	Recognized in equity	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax liabilities (assets)						
Property, plant, and equipment	$ 34,427	$ 4,325	$ —	$ 4,168	$ —	$ 42,920
Employee future benefits	(2,344)	—	—	41	(663)	(2,966)
Foreign exchange differences	(4,763)	—	—	(112)	1,281	(3,594)
Losses for tax purposes	(5,937)	—	—	5,937	—	—
Convertible debentures	375	—	893	(431)	—	837
Tax allowances, provisions and other	3,677	—	—	(2,236)	—	1,441
	$ 25,435	$ 4,325	$ 893	$ 7,367	$ 618	$ 38,638

December 31, 2016	Opening balance	Transferred from Discontinued Operations	Recognized in equity	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

13. ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

		2017		2016
Due from customers	$	51,491	$	46,225
Accrued revenue on voyages in process		6,225		3,816
Government related		6,345		1,439
Other		123		692
	$	64,184	$	52,172

14. 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, 2017 and 2016 are as follows:

		2017		2016
Revenue	$	5,051	$	18,978
Operating expenses		(4,036)		(11,656)
Selling, general and administrative, and depreciation		(1,454)		(4,038)
Gain on sale of properties		28,857		24,396
Earnings before income taxes		28,418		27,680
Interest income		22		—
Income taxes		(4,612)		(4,961)
Net earnings	$	23,828	$	22,719

The assets and liabilities of the discontinued operation at December 31, 2017 and 2016 are as follows:

		2017		2016
Accounts receivable	$	649	$	2,633
Materials and supplies		—		42
Prepaid expenses		—		170
Land and buildings		—		58,178
Deferred income taxes		324		—
Total assets	$	973	$	61,023
Accounts payable and accrued charges	$	1,011	$	3,884
Income taxes payable		477		5,679
Deferred income taxes		—		6,267
Total liabilities	$	1,488	$	15,830

On February 1, 2017, the Board of Directors decided to retain and not sell the 63 Church Street office building which houses the Company's head office. As a result, the carrying cost of the building was reclassified from discontinued operations to property, plant and equipment (Note 16).

The Company owns a shopping centre and apartment building located in Sault Ste. Marie. On June 26, 2017 the Company suspended sales discussions on these properties and has accordingly reclassified them from discontinued operations into Investment Properties (Note 17). It is the intent of the Company that both properties will be placed on the market in the near future once a development plan for the former Sears space is set.

In 2017, the Company sold seven of its real estate properties (2016 - five).

The cash flows from discontinued operations for the years ended December 31, 2017 and 2016 are as follows:

		2017		2016
Net cash (used) generated from operating activities	$	(3,210)	$	4,432
Net cash used in investing activities		(1,560)		(937)
Net cash from sale of properties		54,668		49,595
Cash provided from discontinued operation	$	49,898	$	53,090

15. OTHER CURRENT ASSETS

The components of other current assets are as follows:

	2017	2016
Materials and supplies	**$ 9,218**	$ 8,588
Prepaid expenses	**3,709**	3,913
Derivative asset	**71**	658
	$ 12,998	$ 13,159

16. PROPERTY, PLANT, AND EQUIPMENT

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

Cost	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Balance at January 1, 2016	$ —	$ 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
Transfers	8,024	(37,423)	—	37,046	7,647
Additions	89	153,779	749	2,903	157,520
Disposals	—	(80,964)	—	—	(80,964)
Fully depreciated assets no longer in use and other	—	13,636	(168)	(1,875)	11,593
Effect of foreign currency exchange differences	—	3,857	—	(17,256)	(13,399)
Balance at December 31, 2017	$ 8,113	$ 826,167	$ 193,558	$ 236,688	$ 1,264,526

Accumulated depreciation	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
Balance at January 1, 2016	$ —	$ 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
Transfers	2,696	(4,988)	—	4,884	2,592
Depreciation expense	663	19,490	9,614	13,781	43,548
Disposals	—	(80,964)	—	—	(80,964)
Fully depreciated assets no longer in use and other	—	13,636	(167)	(1,875)	11,594
Effect of foreign currency exchange differences	—	478	—	(4,445)	(3,967)
Balance at December 31, 2017	$ 3,359	$ 323,131	$ 100,601	$ 67,590	$ 494,681

Net Book Value	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Dry-Bulk Shipping	Total
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
December 31, 2017					
Cost	$ 8,113	$ 826,167	$ 193,558	$ 236,688	$ 1,264,526
Accumulated depreciation	3,359	323,131	100,601	67,590	494,681
	$ 4,754	$ 503,036	$ 92,957	$ 169,098	$ 769,845

Net book value at December 31, 2017 includes capitalized dry-docking costs of $37,189 (2016 - $37,633) and related accumulated depreciation of $25,926 (2016 - $23,148).

Depreciable assets at December 31, 2017 and 2016 includes progress payments on seven Equinox Class vessels totalling $128,104 (2016 - $185,335). The Company capitalized $13,885 of interest in 2017 (2016 - $7,319) 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 2017 and 2016.

Depreciation expense for the year ended December 31, 2017 was $43,548 (2016 - $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.

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 2016 review, the Company determined that the current carrying values of the domestic dry-bulk fleet and the tanker fleet were impaired. The Company 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 8.75% (2016 - 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.

17. INVESTMENT PROPERTIES

The Company owns a shopping centre and apartment building located in Sault Ste. Marie. The Company has decided to suspend on-going discussions regarding the sale of the shopping centre and adjacent apartment building until the uncertainty created by the Sears closure is resolved. These properties have been reclassified from discontinued operations into continuing operations as Investment Properties. Under IFRS 5, the historical operating results of these properties have been reclassified to continuing operations on a retroactive basis. In addition to the retroactive reclassification, depreciation in the amount of $2,800 that had not been recorded since classification as an asset held for sale has been recorded in the second quarter of 2017 as though the asset had not been originally classified as held for sale. It remains the intention of the Company to dispose of the Investment Properties once market conditions improve and the Sears vacancy can be addressed.

Details of the investment properties are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2016	$ —	$ —	$ —
Transfer from Discontinued Operations, June 26, 2017	57,677	30,940	26,737
Additions	213	4,991	(4,778)
Balance, December 31, 2017	**$ 57,890**	**$ 35,931**	**$ 21,959**

18. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	Goodwill	Intangible Assets	Total
Balance at January 1, 2016	$ 7,910	$ —	$ 7,910
Additions	—	4,225	4,225
Amortization	—	(792)	(792)
Effect of foreign currency exchange differences	—	248	248
Balance at December 31, 2016	$ 7,910	$ 3,681	$ 11,591
Additions	—	7,794	7,794
Amortization	—	(3,086)	(3,086)
Effect of foreign currency exchange differences	—	(468)	(468)
Balance at December 31, 2017	**$ 7,910**	**$ 7,921**	**$ 15,831**

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 is tested annually for impairment. For the purpose of impairment testing, goodwill is tested for impairment using the fair value less cost to dispose model at the operating segment level. The operating segment level is the lowest level within the entity at which the goodwill is monitored.

An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition.

No impairment was determined to exist as a result of the reviews performed as at December 31, 2017 and 2016.

Intangible Assets

The Company has vessels that participate in a self-unloader ocean-going Pool with unrelated parties. In April 2016 and January 2017, 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 assets were assessed for annual impairment as at December 31, 2017 and 2016, and no impairment was determined to exist.

19. OTHER ASSETS

Other assets consist of the following:

	December 31	
	2017	2016
Loan receivable from joint venture, interest at 4.98%	**$ 14,244**	$ 14,244
Derivative asset	**12**	—
	$ 14,256	$ 14,244

20. ACCOUNTS PAYABLE AND ACCRUED CHARGES

The components of accounts payable are as follows:

	December 31	
	2017	2016
Due to suppliers and accrued charges	**$ 61,329**	$ 47,638
Accrued instalments on vessel construction	**—**	21,540
Accrued interest on long-term debt	**4,259**	5,196
Commodity taxes payable	**3,956**	1,105
Lay up commitments	**75**	—
Other	**3**	573
	$ 69,622	$ 76,052

21. OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

	December 31	
	2017	2016
Dividends payable	**$ 565**	$ 527
Derivative liabilities	**8,122**	770
Compensation payable to Pool members	**165**	364
	$ 8,852	$ 1,661

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. This resulted in an unrealized gain of $683 (2016 - $7,536).

22. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31	
	2017	2016
Compensation payable to Pool members	**$ 5,090**	$ 3,445
Derivative liabilities	**—**	8,194
	5,090	11,639
Less: current portion	**165**	364
	$ 4,925	$ 11,275

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.

23. 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, 2017. The next required valuation for the defined benefit plans will be as of January 1, 2018 for the Employee Pension Plan of Algoma Central Corporation and January 1, 2020 for The Union Employee Pension Plan for Algoma Ship Repair.

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

	Pension Plans		Other Benefit Plans	
	2017	2016	**2017**	2016
Discount rate used for estimating accrued benefit obligation	**3.5%**	3.9%	**3.5%**	3.9%
Discount rate used for estimating net interest cost included in net benefit cost incurred	**3.9%**	3.9%	**3.9%**	3.9%
Rate of compensation increases	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter	3.0% to 2020, 2.5% thereafter
Mortality assumption	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B	CPM 2014 Private Table with CPM-B

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 5.6% (2016 – 5.8%), 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 2017:

	Increase	Decrease
Accrued benefit obligation	$ 1,351	$ (1,307)

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

	2017	2016
Opening balance	**$ (7,839)**	$ (16,626)
(Losses) gains recognized during year, net of income tax	**(1,823)**	8,787
	$ (9,662)	$ (7,839)

The components of the actuarial (losses) gains recognized in other comprehensive loss during the year are as follows:

	2017	2016
Return on plan assets	**$ 6,422**	$ 10,259
Actuarial (losses) arising from changes in demographic assumptions	**(410)**	—
Actuarial (losses) gains arising from changes in financial assumptions	**(8,057)**	1,986
Actuarial gains (losses) arising from experience adjustments	**647**	(290)
Adjustments for restrictions on the defined benefit asset	**(1,082)**	—
	(2,480)	11,955
Income tax (recovery) expense	**(657)**	3,168
	$ (1,823)	$ 8,787

Information, in aggregate, regarding the Company's benefit plans for the years 2017 and 2016 is presented below.

December 31, 2017	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 165,494	$ 10,844	$ 176,338
Effect of asset ceiling	1,082		1,082
Less: fair value of plan assets	165,945	—	165,945
Net liability	$ 631	$ 10,844	$ 11,475

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

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

	December 31	
	2017	2016
Employee future benefit liabilities	**$ 23,960**	$ 23,140
Employee future benefit assets	**12,485**	13,517
Net liability	**$ 11,475**	$ 9,623

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

2017

Employee Future Benefit Assets	Pension Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 159,475	$ —	$ 159,475
Expected return on plan assets	6,101	—	6,101
Return on plan assets in excess of expected return	6,422	—	6,422
Benefits paid	(9,730)	(655)	(10,385)
Employer contributions to plans	3,010	514	3,524
Employee contributions to plans	667	—	667
Other	—	141	141
Fair value, end of year	$ 165,945	$ —	$ 165,945

Employee Future Benefit Obligations			
Obligations, beginning of year	$ 158,631	$ 10,467	$ 169,098
Employer current service cost	2,411	143	2,554
Employee current service cost	667	—	667
Past service costs that have vested	435	—	435
Interest cost	5,975	396	6,371
Benefits paid	(9,730)	(655)	(10,385)
Retiree contributions	—	141	141
Actuarial gains	7,468	374	7,842
Other	(363)	(22)	(385)
Obligations, end of year	$ 165,494	$ 10,844	$ 176,338

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

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

	December 31	
	2017	2016
The Employee Pension Plan of Algoma Central Corporation	**$ 12,485**	$ 12,199
The Union Employee Pension Plan of Algoma Ship Repair	**—**	1,318
	$ 12,485	$ 13,517

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

	December 31	
	2017	2016
Supplementary Employee Retirement Plan	**$ 13,294**	$ 12,489
Other benefit plans	**10,666**	10,651
	$ 23,960	$ 23,140

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

2017	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,411	$ 143	$ 2,554
Interest cost on plan obligations	5,975	396	6,371
Past service costs that have vested	435	—	435
Expected return on plan assets	(6,100)	—	(6,100)
Net benefit expense	$ 2,721	$ 539	$ 3,260

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

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

	2017	2016
Short term notes	**$ 11,275**	$ 10,670
Canadian Government bonds	**34,718**	32,664
Canadian corporate bonds	**2,605**	1,478
Canadian equities	**55,038**	52,406
Foreign equities	**66,314**	65,191
Annuities	**5,140**	5,463
	175,090	167,872
Contributions receivable	**140**	—
Amount related to defined contribution plans	**(9,285)**	(8,397)
	$ 165,945	$ 159,475

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 2017 was 8.7% or $13,831 (2016 - 11.8% or $17,386).

The Company expects to make contributions of $2,588 (2016 - $1,913) 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 (2016 - $1,215).

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 $19,216 (increase by $23,657).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $2,328 (decrease by $1,878).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by $4,141 (decrease by $3,942).

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, 2017 is 11.1 years (2016: 11.0 years). This number can be analysed as follows:

- active members: 14.4 years (2016: 14.3 years);
- deferred members: 15.6 years (2016: 14.8 years); and
- retired members: 8.7 years (2016: 8.4 years).

24. LONG-TERM DEBT

	December 31	
	2017	2016
Convertible unsecured subordinated debentures, due June 30, 2024, interest at 5.25% (Note 25)	**$ 79,338**	$ —
Convertible unsecured subordinated debentures, due March 31, 2018, interest at 6.00%	**—**	67,555
Senior Secured Notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	**94,088**	100,705
Canadian $75,000, interest fixed at 5.52%	**75,000**	75,000
Bank Facility, due July 15, 2020		
LIBOR, U.S. $20,000, due January 19, 2018, interest at 3.50%	**25,090**	—
Base rate loan, U.S. $15,000, interest at 6%	**18,817**	—
Prime rate loan, interest at 4.2%	**5,000**	—
	297,333	243,260
Less: unamortized financing expenses	**5,329**	2,705
	292,004	240,555
Less: current portion of long-term debt	**48,907**	—
	$ 243,097	$ 240,555

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.

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 Senior Secured Notes.

As at December 31, 2017, and 2016 the Company was in compliance with all of its covenants.

During 2017, the Company capitalized $13,885 (2016 - $7,319) in borrowing costs using a capitalization rate of 6.34% (2016 - 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	
	2017	2016
Falling due within one year	**$ 48,907**	$ —
Falling due between one and two years	**—**	67,555
Falling due between two and three years	**—**	—
Falling due between three and four years	**169,088**	—
Falling due in four years or later	**79,338**	175,705
	$ 297,333	$ 243,260

25. CONVERTIBLE DEBENTURES

In June 2017, the Company issued $82,500 of convertible unsecured subordinated debentures (the "2017 Debentures"). Each 2017 Debenture may 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 $21.15 per common share. On redemption at the maturity date, the Company may repay the indebtedness represented by the 2017 Debentures by paying an amount equal to the aggregate principal amount of the outstanding debentures. The Company has the option to repay the principal amount with common shares. The proceeds of the 2017 Debenture issue, net of related costs, were $78,383.

The 2017 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 2017 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 $3,370. The carrying value of $2,309, which is net of financing costs and income tax, has been recorded as a separate component in shareholders' equity.

The present value of the liability, net of expenses, of $75,181 was calculated using a discount rate of 6.0% 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 face value of the debentures over the term of the debentures with a resulting charge to interest expense.

On July 21, 2017, the Company redeemed the convertible unsecured subordinated debentures due March 31, 2018 (the "2011 Debentures"). As the 2011 Debentures were redeemed without conversion, the equity component relating to the 2011 Debentures in the amount of $4,630 was transferred to Contributed Surplus.

26. SHARE CAPITAL

Share capital

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

The Company has 38,552,315 common shares outstanding as at December 31, 2017 (38,913,733 - 2016).

At December 31, 2017 and 2016 there were no preferred shares issued and outstanding.

The Company's Board of Directors on February 2, 2018 authorized payment of a quarterly dividend to shareholders of $0.09 per common share. The dividend is payable on March 1, 2018 to shareholders of record on February 15, 2018.

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

		2017		2016
Net earnings from continuing operations for basic earnings per share	**$**	**32,367**	$	10,596
Interest expense on debentures, net of tax		**4,793**		4,196
Net earnings from continuing operations for diluted earnings per share	**$**	**37,160**	$	14,792
Basic weighted average common shares		**38,883,615**		38,913,733
Shares due to dilutive effect of debentures		**4,514,862**		4,478,896
Diluted weighted average common shares		**43,398,477**		43,392,629
Basic earnings per common share from continuing operations	**$**	**0.83**	$	0.27
Diluted net earnings per common share from continuing operations	**$**	**0.78**	$	0.22

Substantial Issuer Bid

In December, 2017, the Company repurchased 361,418 common shares (the “Shares”) for cancellation at a price of $14.75 per Share under a substantial issuer bid (“SIB”).

The Shares purchased under the SIB represent an aggregate purchase price of $5,920 and represented 0.9% of the total number of the Company’s issued and outstanding common shares as of December 15, 2017 (the expiry date of the SIB). After giving effect to the SIB, the Company has 38,552,315 common shares issued and outstanding.

27. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Hedges			
	Net investment	Purchase commitment	Foreign exchange translation	Total
Balance at December 31, 2015	$ (22,409)	$ 7,145	$ 19,949	$ 4,685
Gain (loss)	4,356	(922)	(9,529)	(6,095)
Reclassified to earnings	—	(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)
Gain (loss)	7,180	(3,381)	(21,413)	(17,614)
Reclassified to property, plant, and equipment	—	(767)	—	(767)
Income tax (expense) recovery	(1,728)	447	—	(1,281)
Net gain (loss)	5,452	(3,701)	(21,413)	(19,662)
Balance at December 31, 2017	**$ (13,179)**	**$ 665**	**$ (10,993)**	**$ (23,507)**

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.

28. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

The other items not affecting cash for the twelve months ended December 31, 2017 and 2016 is as follows:

	Note	2017	2016
Interest expense	10	$ 4,843	$ 9,824
Foreign currency gain	11	(2,260)	(3,505)
Unrealized (gain) loss on foreign currency exchange contracts	21	(683)	7,536
Income tax expense (recovery)	12	13,125	(7,190)
(Gain) loss on sale of property, plant, and equipment		(585)	2,398
		$ 14,440	$ 9,063

The change in non-cash operating working capital for the twelve months ended December 31, 2017 and 2016 is as follows:

	2017	2016
Accounts receivable	$ (12,011)	$ (4,632)
Materials and supplies	(629)	(1,259)
Prepaid expenses	205	(421)
Accounts payable and accrued charges	3,888	15,330
Other working capital	(3,734)	(2,201)
	$ (12,281)	$ 6,817

29. 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 6.3%.

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 2017 was 6.4% versus 6.8% for 2016 and it has averaged 7.6% over the five years ended December 31, 2017.

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

The long-term debt to shareholders' equity ratio at December 31, 2017 and 2016 is as follows:

	2017	2016
Total long-term debt	**$ 297,333**	$ 243,260
Shareholders' equity	**$ 660,460**	$ 641,550
Debt to shareholders' equity ratio	**0.45 to 1**	0.38 to 1

30. COMMITMENTS

The table below reflects the commitments the Company has at December 31, 2017.

Construction of seven Equinox Class vessels	**$ 199,148**
Construction of three cement carriers	**6,905**
Employee future benefit payments	**3,942**
	$ 209,995

Annual expected payments are as follows:

Due in 2018	**$ 62,038**
Due in 2019	**117,965**
Due in 2020	**28,834**
Due in 2021	**974**
Due in 2022	**137**
Due beyond 2022	**47**
	$ 209,995

31. 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.

32. 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	
	2017	2016
Financial assets carrying and fair value		
Cash	**$ 68,860**	$ 130,039
Accounts receivable	**$ 64,184**	$ 52,172
Derivative asset	**$ 83**	$ 658
Other assets	**$ 14,256**	$ 14,244
Financial liabilities carrying and fair value		
Accounts payable and accrued charges	**$ 69,622**	$ 76,052
Dividends payable	**$ 565**	$ 527
Derivative liabilities	**$ 8,122**	$ 770
Compensation payable to Pool members	**$ 165**	$ 364
Other long-term liabilities	**$ 4,925**	$ 11,275
Carrying value of long-term debt	**$ 297,333**	$ 243,260
Fair value of long-term debt	**$ 307,734**	$ 257,454

The derivative 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, 2017 and 2016 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, 2017 and December 31, 2016 was not significant. The percentage of accounts receivable greater than 60 days past due was 10.8% and 10.3%, for December 31, 2017 and 2016, 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, 2017 and 2016 was Canadian $50,000 and U.S. $100,000 in a revolving facility. At December 31, 2017, the Company had Canadian $45,000 (2016 - $49,307) and U.S. $53,043 (2016 - $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, 2017 of the assets pledged was approximately $604,552. 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, 2017 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 69,622	$ —	$ —	$ —	$ 69,622
Dividends payable	565	—	—	—	565
Other long-term liabilities	1,862	3,063	—	—	4,925
Long-term debt including equity portion	48,907	169,088	79,338	—	297,333
Interest payments	8,948	17,896	4,847	—	31,691
Total	$ 129,904	$ 190,047	$ 84,185	$ —	$ 404,136

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, 2017 and 2016, the Company did not have any significant cash flow exposure to interest rate movements for its outstanding debt, since substantially all of its borrowings have interest rates that have been fixed (Note 24).

(c) Interest rate sensitivity analysis

At December 31, 2017 and 2016 respectively, all of the Company borrowings have interest rates that are substantially 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, 2017 and 2016, approximately 24% and 17%, respectively, of the Company's total assets were denominated in U.S. dollars, including U.S. cash of $29,516 and $25,254 at December 31, 2017 and 2016, 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, 2017 and 2016, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $169,019 and

$223,748 U.S. dollars, respectively. The amount used as a hedge at December 31, 2017 and 2016 was $95,000 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, 2017 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €78,662 and a fair value loss of $7,377 (December 31, 2016 - $12,592), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $24,840 (December 31, 2016 - $97,148) and fair value loss of $663 (December 31, 2016 - gain of $5,055). The contract maturities are as follows: 2018 - €10,840, U.S. - $78,662, 2019 - €14,000, U.S. - nil.

(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 $1,256.

Based on the balances at December 31, 2017 and 2016:

- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase other comprehensive earnings by $19,329 and $11,455, respectively.
- A ten-cent weakening in the Canadian dollar relative to the Euro dollar would increase other comprehensive earnings by $925 and $463, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase total assets by $21,431 and $13,075, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S dollar would increase total liabilities by $9,500.

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.

33. SEGMENT DISCLOSURES

The Company operates through four segments; Domestic Dry-Bulk, Product Tankers, Ocean Self-Unloaders 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	2017	2016
Domestic Dry-Bulk	**$ 278,265**	$ 244,221
Product Tankers	**86,274**	63,004
Ocean Self-Unloaders	**74,912**	72,179
	439,451	379,404
Investment Properties	**11,599**	12,002
	$ 451,050	$ 391,406

Operating Expenses	2017	2016
Domestic Dry-Bulk	**$ 209,178**	$ 195,869
Product Tankers	**68,596**	41,238
Ocean Self-Unloaders	**45,683**	43,682
	323,457	280,789
Investment Properties	**9,885**	8,043
	$ 333,342	$ 288,832

Net Earnings from Continuing Operations	2017		2016	
Operating earnings net of income tax				
Domestic Dry-Bulk	**$ 29,057**		$ 9,407	
Unrealized gain (loss) on foreign currency exchange contracts	**593**		(5,539)	
Impairment on assets	**—**		(27,519)	
Gain on cancellation of shipbuilding contracts	**—**	**29,650**	22,322	(1,329)
Product Tankers	**3,475**		8,207	
Impairment on assets	**—**	**3,475**	(3,837)	4,370
Ocean Self-Unloaders		**12,442**		18,971
Global Short Sea Shipping		**3,474**		2,542
Segment operating earnings		**49,041**		24,554
Corporate		**(11,156)**		(11,508)
Not specifically identifiable to segments				
Investment properties		**(167)**		3,958
Interest expense		**(4,843)**		(9,824)
Interest income		**1,205**		1,142
Foreign currency gain		**2,260**		3,505
Income tax expense		**(3,973)**		(1,231)
		$ 32,367		$ 10,596

Assets	December 31 2017	2016
Domestic Dry-Bulk	**$ 561,988**	$ 468,401
Product Tankers	**104,695**	110,110
Ocean Self-Unloaders	**190,421**	182,997
Global Short Sea Shipping	**98,425**	68,656
Assets of discontinued operations held for sale	**973**	61,023
Total assets allocated to segments	**956,502**	891,187
Not specifically identifiable to segments	**143,788**	144,826
	$ 1,100,290	$ 1,036,013

Additions to Property, Plant, and Equipment	2017	2016
Domestic Dry-Bulk	**$ 153,779**	$ 122,305
Product Tankers	**749**	1,845
Ocean Self-Unloaders	**2,903**	124,714
Corporate	**89**	—
Total per property, plant, and equipment note (Note 16)	**157,520**	248,864
Transfer between business segments	**—**	224
Capitalized interest	**(13,884)**	(7,319)
Amounts included in working capital	**20,836**	(20,761)
Total per cash flow statement	**$ 164,472**	$ 221,008

Depreciation of Property, Plant, and Equipment	2017	2016
Domestic Dry-Bulk	**$ 19,490**	$ 25,479
Product Tankers	**9,614**	9,031
Ocean Self-Unloaders	**13,781**	12,393
Corporate	**663**	—
	43,548	46,903
Investment Properties	**1,883**	—
	$ 45,431	$ 46,903

	December 31	
Liabilities	**2017**	2016
Domestic Dry-Bulk	**$ 55,105**	$ 64,993
Product Tankers	**22,887**	22,534
Ocean Self-Unloaders	**12,060**	9,363
Liabilities of discontinued operations held for sale	**1,488**	15,830
Total liabilities allocated to segments	**91,540**	112,720
Not specifically identifiable to segments		
Current liabilities	**9,028**	527
Other	**339,262**	281,216
Total Liabilities	**$ 439,830**	$ 394,463

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, 2017 and 2016 is as follows:

	December 31	
	2017	2016
Property, plant, and equipment	**$ 169,098**	$ 160,625
Revenues	**$ 74,912**	$ 72,179

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, 2017 and 2016, sales outside of Canada were $118,687 and $170,729, respectively.

The Company had two customers in 2017 and two in 2016 whose revenues exceeded 10% of consolidated revenues. Sales by segment for these customers are as follows:

	2017	2016
Domestic Dry-Bulk	**$ 93,155**	$ 83,907
Product Tankers	**$ 84,713**	$ 54,902

34. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key members of management for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Short-term compensation and benefits	$ 5,357	$ 3,724
Termination benefits	1,389	—
Share-based compensation	502	410
Post-employment benefits	286	183
	$ 7,534	$ 4,317

35. 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 2017 and 2016.

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

	2017 (Note 1)	2016 (Note 1)	2015	2014	2013
Revenue					
Domestic Dry-Bulk	$ 278,265	$ 244,221	$ 299,553	$ 337,244	$ 323,023
Product Tankers	86,274	63,004	75,335	95,152	100,635
Ocean Dry-Bulk Shipping	74,912	72,179	38,605	41,050	39,513
Investment Properties	11,599	12,002	—	—	—
	$ 451,050	$ 391,406	$ 413,493	$ 473,446	$ 463,171
Net earnings	$ 56,195	$ 33,315	$ 25,771	$ 52,765	$ 41,923
Segment earnings net of income taxes	$ 49,041	$ 24,554	$ 37,534	$ 54,276	$ 43,640
Depreciation	$ 45,431	$ 46,903	$ 44,907	$ 39,255	$ 39,967
General and administrative expenses	$ 27,859	$ 29,309	$ 26,313	$ 23,831	$ 22,719
Cash flow	$ 62,765	$ 90,088	$ 57,751	$ 97,647	$ 101,307
Dividends paid	$ 11,611	$ 10,895	$ 10,895	$ 10,895	$ 10,895
Property, plant, and equipment					
Additions in year	$ 157,520	$ 248,864	$ 115,857	$ 25,332	$ 44,973
Net book value	$ 769,845	$ 660,251	$ 513,140	$ 530,726	$ 529,734
EBITDA (Note 2)	$ 101,632	$ 87,922	$ 79,538	$ 99,192	$ 97,336
Total assets	$ 1,100,290	$ 1,036,013	$ 988,805	$ 974,055	$ 856,159
Long-term debt including current	$ 297,333	$ 243,260	$ 246,754	$ 227,562	$ 232,922
Shareholders' equity	$ 660,460	$ 641,550	$ 618,610	$ 607,099	$ 561,086
LTD as a percent of shareholders' equity	45.0%	37.9 %	39.9 %	37.5 %	41.5%
Return on capital employed (Note 3)	4.3%	4.2 %	2.5 %	6.3 %	6.1%
Adjusted return on capital employed (Note 4)	6.4%	6.8 %	4.1 %	10.7 %	10.1%
Return on equity (Note 5)	8.6%	5.3 %	4.2 %	9.0 %	7.9%
Total shareholder return (Note 6)	33.6%	(10.5)%	(12.9)%	(0.7)%	19.6%

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

	2017	2016	2015	2014	2013
Common Share Statistics					
Shares outstanding	38,552	38,913	38,913	38,912	38,912
Basic earnings per share	$ 1.44	$ 0.85	$ 0.66	$ 1.36	$ 1.08
Diluted earnings per share	$ 1.32	$ 0.74	$ 0.66	$ 1.31	$ 1.06
Cash flow per share	$ 1.63	$ 2.31	$ 1.48	$ 2.51	$ 2.60
Quoted market value					
High	$ 16.04	$ 14.18	$ 17.60	$ 17.43	$ 17.18
Low	$ 11.46	$ 9.75	$ 13.27	$ 14.65	$ 13.33
Dividends paid per share	$ 0.32	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Shareholders' equity per share	$ 17.13	$ 16.49	$ 15.90	$ 15.60	$ 14.42

Note 1 - Due to the suspension of ongoing efforts to sell the shopping centre, the properties have been reclassified from discontinued operations into continuing operations as Investment Properties. Under IFRS 5, the historical operating results of these properties have been reclassified to continuing operations on a retroactive basis.

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.

Directors

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

Paul R. Gurtler (3) (5)
Hamilton, Bermuda
Managing Director
Interlink Maritime Corporation

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

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

Mark McQueen (1)
Toronto, Ontario,
President and Executive Managing Director,
Innovation Banking
CIBC

Clive P. Rowe (2) (4) (5)
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) (5)
Toronto Ontario,
Venture Capitalist and Co-Founder
Perseverance Marine

Principal Officers

Duncan N. R. Jackman
Chairman

Ken B. Soerensen
President and Chief Executive Officer

Peter D. Winkley, CPA, CA
Chief Financial Officer

Gregg A. Ruhl
Chief Operating Officer

J. Wesley Newton, LLB
Senior Vice-President - Corporate Development
and General Counsel

Mario Battista, CPA, CMA
Vice-President, Finance and Process Innovation

Christopher A. L. Lazarz, CPA, CA
Vice-President, Corporate Finance

Brad Tiffin
Vice-President, Operations

Steve Wright
Vice-President, Engineering

Bruce Partridge, MBA
Vice-President, Commercial

Jeffrey M. DeRosario, P. Eng
Assistant Vice-President, Marketing

Cathy Smith
Assistant Vice-President, Human Resources

(1) Member of the Audit Committee
(2) Member of the Corporate Governance Committee
(3) Member of the Environmental, Health and Safety Committee
(4) Member of the Executive Committee
(5) Member of the Investment Committee

Shareholders' Meeting

The Annual Meeting of Shareholders will be held at 11:30 a.m., on Friday, May 4, 2018 at Vantage Venues, 27th Floor, 150 King Street West, Toronto, ON.

Contact Information

Executive Office

63 Church Street, Suite 600,
St. Catharines, Ontario, L2R 3C4
(905) 687-7888
E-mail: inquiries@algonet.com
Website: www.algonet.com

Shareholder Information

Principal Banker and Security Agent:	The Bank of Nova Scotia
Auditors:	Deloitte LLP
Toronto Stock Exchange Symbols:	ALC - Common Stock ALC DB.A - Convertible Debenture
Share Registrar and Transfer Agent:	AST Trust Company (Canada) P.O. Box 4202, Station A, Toronto, ON M5V 2V6 Tel: 416-682-3800 1-888-402-1644 Email: businessdev@astfinancial.com Website: www.astfinancial.com

2017

www.algonet.com