



INTERIM REPORT TO SHAREHOLDERS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018



Short Sea Shipping is OUR BUSINESS

Algoma Central Corporation

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General

Algoma Central Corporation (“Algoma” or the “Company”) operates through six segments, Domestic Dry-Bulk, Product Tankers, Ocean Self-Unloaders, Global Short Sea Shipping, Investment Properties and Corporate.

This Management’s Discussion and Analysis (“MD&A”) of the Company should be read in conjunction with its interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 and related notes thereto and has been prepared as at November 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, and unless otherwise noted.

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.

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.

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 measures 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 5).

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 158,729	\$ 137,200	\$ 358,658	\$ 313,438
Net earnings	\$ 19,639	\$ 32,768	\$ 24,941	\$ 42,827
Basic earnings per common share	\$ 0.51	\$ 0.84	\$ 0.65	\$ 1.10
Continuing operations:				
<i>Net earnings</i>	\$ 19,639	\$ 22,517	\$ 24,941	\$ 18,469
<i>Basic earnings per common share</i>	\$ 0.51	\$ 0.58	\$ 0.65	\$ 0.47
Net earnings from discontinued operations	\$ —	\$ 10,251	\$ —	\$ 24,358
 <u>At September 30</u>				
Common shares outstanding			38,460,615	38,913,733
Total assets			\$ 1,123,573	\$ 1,098,575
Total long-term financial liabilities			\$ 328,049	\$ 343,717

The Company is reporting 2018 third quarter revenue of \$158,729 compared to \$137,200 reported for the same period in 2017. The increase in revenue during the third quarter of 2018 was primarily due to an increase in daily rates in the Domestic Dry-Bulk segment which has offset lower overall volumes. Revenue in the Product Tankers and Ocean Self-Unloaders segments also increased. The increase in Product Tankers was as a result of the continued strength in customer demand and in Ocean Self-Unloaders the fleet was in full utilization compared to the third quarter in 2017.

Revenues for the nine months ended September 30, 2018 of \$358,658 were \$45,220 higher than revenues for the same period in the prior year. Domestic Dry-Bulk experienced a \$19,353 increase in revenue, Product Tankers a \$14,504 increase and Ocean Self-Unloaders saw a \$11,189 increase. The fleets in all segments remain fully booked for the remainder of the season.

Net earnings from continuing operations for the 2018 third quarter were \$19,639, a decrease of \$2,878 and for the nine months ended September 30, 2018 net earnings were \$24,941 an increase of \$6,472 compared to the previous year periods. The decrease in the third quarter was due to higher operating costs, partially offset by higher fuel income. The increase for the nine months ended September 30, 2018 was due to higher operating earnings including higher earnings from joint ventures and a \$4,587 gain on the disposition of assets within the Domestic Dry-Bulk fleet.

Net earnings from discontinued operations in 2017 relates to the properties that were sold within the discontinued real estate segment. The remaining properties have since been reclassified as Investment Properties.

Net earnings above includes our share of net earnings from our Global Short Sea Shipping segment. Revenue of the segment, in which we participate via joint ventures, is not included in the consolidated revenue figure. The Global Short Sea Shipping business generated third quarter revenues of \$59,893 compared to \$88,016 for the same period in 2017. For the nine months ended September 30, 2018 revenues of \$177,568 were \$37,469 higher than revenues for the same period in the prior year.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 the 2018 third quarter was \$49,026 an increase of 8% compared to the same period in 2017. For the nine months ended September 30, 2018 EBITDA was \$87,695, an increase of 32% compared to the prior year. EBITDA is determined as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net earnings	\$ 19,639	\$ 32,768	\$ 24,941	\$ 42,827
Adjustments to net earnings:				
Depreciation of property, plant, equipment and intangibles	14,243	12,164	40,927	38,452
Interest income	(234)	(348)	(784)	(899)
Interest expense	3,163	1,930	8,197	4,106
Net loss on shipbuilding contracts	593	—	593	—
Foreign currency (gain) loss	1,004	795	(2,336)	(3,209)
Income tax expense	5,106	5,860	4,204	2,340
Discontinued operations				
Gain on sale of real estate	—	(12,844)	—	(29,146)
Depreciation in discontinued operations	—	83	—	43
Income tax expense	—	2,016	—	4,476
Joint ventures				
Interest expense	1,586	396	3,284	1,642
Foreign exchange loss (gain)	60	618	(411)	1,118
Depreciation	4,031	1,912	8,975	4,939
Income tax expense (recovery)	(165)	51	105	(20)
EBITDA	\$ 49,026	\$ 45,401	\$ 87,695	\$ 66,669

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
2018	Quarter 3	\$ 158,729	\$ 19,639	\$ 0.51
	Quarter 2	\$ 139,442	\$ 14,445	\$ 0.38
	Quarter 1	\$ 60,488	\$ (9,142)	\$ (0.23)
2017	Quarter 4	\$ 139,435	\$ 15,973	\$ 0.34
	Quarter 3	\$ 137,200	\$ 32,768	\$ 0.84
	Quarter 2	\$ 124,147	\$ 29,164	\$ 0.75
	Quarter 1	\$ 52,092	\$ (19,105)	\$ (0.49)
2016	Quarter 4	\$ 130,578	\$ (11,753)	\$ (0.31)

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

Year	Quarter	Trailing Twelve Months				
		Revenue	Net Earnings	Basic Earnings per Share	Adjustment to Basic Earnings per Share *	Adjusted Basic Earnings per Share
2018	Quarter 3	\$ 498,094	\$ 40,915	\$ 1.06	\$ 0.03	1.08
	Quarter 2	\$ 476,565	\$ 54,044	\$ 1.40	\$(0.27)	1.13
	Quarter 1	\$ 461,270	\$ 68,763	\$ 1.77	\$(0.62)	1.16
2017	Quarter 4	\$ 452,874	\$ 58,800	\$ 1.53	\$(0.62)	0.91
	Quarter 3	\$ 444,017	\$ 31,074	\$ 0.80	\$(0.04)	0.76
	Quarter 2	\$ 424,551	\$ 36,811	\$ 0.95	\$(0.23)	0.72
	Quarter 1	\$ 399,671	\$ 20,908	\$ 0.54	\$ 0.12	0.66
2016	Quarter 4	\$ 391,406	\$ 33,315	\$ 0.85	\$(0.30)	0.56

* 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.

	2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Gain (loss) on shipbuilding contracts	\$ 0.42	\$ —	\$ 0.16	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$(0.02)
Impairment provisions	—	—	—	(0.81)	—	—	—	—	—	—	—
Sale of real estate properties	—	—	0.31	0.22	—	0.35	0.28	(0.01)	—	—	—
	<u>\$ 0.42</u>	<u>\$ —</u>	<u>\$ 0.47</u>	<u>\$(0.59)</u>	<u>\$ —</u>	<u>\$ 0.35</u>	<u>\$ 0.28</u>	<u>\$(0.01)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$(0.02)</u>
Trailing adjustment to EPS				<u>\$ 0.30</u>	<u>\$(0.12)</u>	<u>\$ 0.23</u>	<u>\$ 0.04</u>	<u>\$ 0.62</u>	<u>\$ 0.62</u>	<u>\$ 0.27</u>	<u>\$(0.03)</u>

Business Segment Discussion

Domestic Dry-Bulk

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 100,128	\$ 89,540	\$ 208,272	\$ 188,919
Operating expenses	(67,651)	(60,413)	(160,344)	(147,649)
Selling, general and administrative	(2,658)	(2,394)	(8,292)	(8,188)
	29,819	26,733	39,636	33,082
Depreciation	(5,999)	(4,974)	(16,785)	(14,381)
(Loss) gain on foreign currency forward contracts and cancellation of shipbuilding contract	(1,577)	(1,291)	(54)	1,103
Income tax expense	(6,394)	(5,767)	(6,365)	(4,956)
Net earnings	\$ 15,849	\$ 14,701	\$ 16,432	\$ 14,848
Additions to property, plant, and equipment			\$ 40,581	\$ 116,712
Total assets			September 30, 2018	December 31, 2017
			\$ 588,298	\$ 561,988

In the 2018 third quarter, Domestic Dry-Bulk saw an \$10,588 increase in revenue and for the nine months ended September 30, 2018, a \$19,353 increase when compared to the previous year periods. The increase in revenue for the quarter was impacted by higher daily rates and higher fuel recovery as a result of an increase in fuel prices. Additionally, freight surcharges associated with vessels equipped with exhaust scrubbers significantly increased in the quarter compared to last year as a result of an additional three vessels with scrubbers operating in the fleet. Operating costs associated with these scrubbers also affects supplies expense.

Although overall volumes are down slightly compared to 2017, the nature of carried cargo has resulted in an increase in average trip times. In the quarter there were decreased volumes in the salt and iron and steel sectors but volumes in the agricultural and construction sectors remain strong with a 14% and 10% increase, respectively.

The increase in revenue for the nine months ended September 30, 2018 compared to 2017 was as a result of a 6% increase in daily rates, partially offset by a 4% decrease in volumes. The Domestic Dry-Bulk fleet is fully booked for the remainder of the season. Customer demand continues to strengthen and we expect this will have a positive impact on daily rates.

Operating expenses for the 2018 third quarter increased by \$7,238 and for the nine months ended September 30, 2018 by \$12,695. The increase in the quarter was as a result of higher fuel expense, corresponding with the higher fuel recovery mentioned above, and higher repair costs due to an increase in vessels out of service for mechanical issues. This was partially offset by a decrease in crew costs; although wage rates have increased, the new vessels in the fleet require fewer crew members to operate. Operating expenses were higher for the year to date as a result of increases in supply, repair and fuel costs. Furthermore, the Company decided to charter in vessels to add capacity as a result of the increased customer demand which consequently increased outside charter expenses.

During the quarter, one of the Croatian new build construction contracts was cancelled and subsequent to the quarter, notices of cancellation were issued to the shipyard for the remaining three contracts. The reimbursement

process has begun and we expect approximately \$112 million in guaranteed refunds to be issued. This includes reimbursement for contract instalments paid to date and related interest. The decision to cancel the contracts was as a result of significant delays in vessel construction. In light of these delays and in order to maintain capacity while retiring older ships, Algoma decided late last year to purchase two vessels, the *Algoma Buffalo* and *Algoma Compass*, from the American Steamship Company. Both vessels joined operations earlier this year. Delivery of the *Algoma Conveyer* is expected from China in early 2019 and steps to replace the cancelled vessels are currently under review.

During the quarter, three of the four agreements covering Domestic Dry-Bulk Officers and one of the two agreements covering Domestic Dry-Bulk unlicensed crew were ratified. All four agreements will be in force until 2023. Negotiations continue towards a renewed collective agreement for the remaining two groups. In an effort to alleviate some of the recruitment and retention challenges faced across the industry and more specifically at Algoma, the renewed agreements provide competitive compensation packages. In addition, changes were also made to provide greater security for Algoma and its employees and to provide increased flexibility for the organization with crew utilization and scheduling.

The outlook for Domestic Dry-Bulk for the balance of the year remains positive. Our fleet is fully booked and we continue to explore options to add capacity to meet market demand. This demand is currently exceeding supply and consequently we expect some of our vessels will be operating into the early winter of 2019 as volumes carried during the fourth quarter are ultimately affected by weather conditions.

Product Tankers

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 31,233	\$ 25,247	\$ 74,081	\$ 59,577
Operating expenses	(25,911)	(17,259)	(59,294)	(47,958)
Selling, general and administrative	(666)	(601)	(2,109)	(2,016)
	4,656	7,387	12,678	9,603
Depreciation	(2,356)	(2,185)	(7,040)	(6,562)
Income tax expense	(631)	(606)	(1,494)	(209)
Net earnings	\$ 1,669	\$ 4,596	\$ 4,144	\$ 2,832
Additions to property, plant, and equipment			\$ 3,314	\$ 244
Total assets			September 30, 2018 \$ 93,410	December 31, 2017 \$ 104,695

Revenue for Product Tankers increased by \$5,986 in the third quarter and by \$14,504 for the nine months ended September 30, 2018 when compared to the same periods last year. The increases for both periods was principally as a result of strong customer demand from our major customer. Refinery shutdowns and reduced pressure in the pipeline have driven the need for marine transportation up, increasing the demand for an alternative source of supply.

Operating expenses for the business unit increased by \$8,652 in the third quarter over the equivalent period in 2017 and by \$11,336 for the nine months ended September 30, 2018 when compared to 2017. The increase in the quarter was principally as a result of a 5% increase in outside charter days which significantly impacted outside charter expenses. Although these charters have positively affected revenue, the cost to operate these vessels is typically more expensive than our owned fleet, resulting in minimal earnings from chartered vessels. This was partially offset by a 14% reduction in operating days due to the decrease in the number of vessels operating this quarter from seven to six; the *Golden Oak* was bareboat chartered from a third party for the majority of the second half of 2017.

Operating expenses increased for the nine months ended September 30, 2018 due to three vessels being in dry-dock for regulatory maintenance and an 8% increase in operating days as a result of the high customer demand.

Customer demand is expected to remain strong for the remainder of the year as demand currently exceeds our capacity. In order to provide further capacity we have acquired an additional Product Tanker, the *Algonorth*, which is expected to begin operations in the fourth quarter.

Ocean Self-Unloaders

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 24,262	\$ 18,902	\$ 66,263	\$ 55,074
Operating expenses	(14,361)	(9,782)	(42,237)	(32,388)
General and administrative	(214)	(177)	(1,295)	(616)
	9,687	8,943	22,731	22,070
Depreciation	(5,022)	(4,104)	(14,282)	(12,686)
Income tax recovery (expense)	3	(10)	7	(6)
(Loss) earnings from joint venture	(314)	(276)	166	(1,278)
Net earnings	\$ 4,354	\$ 4,553	\$ 8,622	\$ 8,100
Additions to property, plant, and equipment			\$ 7,190	\$ 2,904
Total assets			September 30, 2018	December 31, 2017
			\$ 187,296	\$ 190,421

Revenue for Ocean Self-Unloaders, reflecting the pro-rata share of Pool revenues generated by our five 100% owned ships, increased in the 2018 third quarter by \$5,360 and by \$11,189 for the nine months ended September 30, 2018 compared to the same periods in the previous year. The increase for both periods was as a result of the fleet being at full utilization with the return of the *Algoma Integrity* to the Pool; in 2017, the *Algoma Integrity* was operating as part of our Domestic Dry-Bulk fleet.

Operating expenses increased in the 2018 third quarter by \$4,579 and in the nine month period ending September 30, 2018 by \$9,849. The increase for both periods reflects increases in fuel and voyage costs and the *Algoma Integrity* being in full operations compared to last year.

General and administrative expenses include costs related to the completion of the office in Fort Lauderdale, Florida and the costs related to closing the office in Beverly, Massachusetts. The office in Florida supports our Global Short Sea Shipping businesses in addition to our Ocean Self-Unloader operations.

Algoma does not incur selling expenses on ocean self-unloader business, but instead pays a commercial fee to the Pool manager, which is reflected as an operating expense.

Demand looks strong for the balance of the year and full utilization is expected.

Global Short Sea Shipping

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 59,893	\$ 88,016	\$ 177,568	\$ 140,099
Operating expenses	(43,978)	(79,673)	(138,966)	(121,685)
Selling, general and administrative	(765)	(2,242)	(5,357)	(4,515)
	15,150	6,101	33,245	13,899
Depreciation	(7,005)	(2,764)	(14,665)	(6,619)
Interest	(2,816)	(436)	(5,510)	(2,224)
Foreign exchange gain (loss)	379	(103)	(76)	(17)
Other income	(107)	—	—	—
Income tax recovery (expense)	504	(230)	189	(350)
Net (loss) earnings of joint ventures	(406)	504	1,230	761
Net earnings attributable to non-controlling interest	(1,479)	—	(1,479)	—
Net earnings	\$ 4,220	\$ 3,072	\$ 12,934	\$ 5,450
Company share of net earnings above Amortization of vessel purchase price allocation and intangibles	\$ 2,110 (122)	\$ 1,536 (63)	\$ 6,467 (513)	\$ 2,725 (196)
Company share included in net earnings of joint ventures	\$ 1,988	\$ 1,473	\$ 5,954	\$ 2,529
Net assets			September 30, 2018	December 31, 2017
			\$ 140,051	\$ 98,425

The figures above reflect 100% of the joint ventures in the Global Short Sea Shipping segment. The Company's 50% share of net earnings, adjusted for amortization arising from vessel purchase price allocation and intangibles, is included in net earnings of joint ventures in our Interim Condensed Consolidated Statement of Earnings.

Revenue decreased in the 2018 third quarter by \$28,123 and for the nine months ended September 30, 2018 increased by \$37,469 compared to the previous year periods. The decrease for the quarter was due to the decrease in the amount of commercially managed vessels in the NASC fleet, offset by the acquisition of additional owned vessels in both the NASC and NACC fleet and the addition of NovaAlgoma Bulk Holdings ("NABH"). The increase during the year to date was mainly as a result of the increase in the amount of vessels in the cement fleet and the increase in the number of owned vessels within the NASC fleet compared to the previous year.

Operating expenses for the third quarter in 2018 decreased by \$35,695 over the same period in 2017 and for the nine months ended September 30, 2018 by \$17,281 compared to the previous year periods. The significant decrease for the quarter was due primarily to the decrease in commercially managed vessels in the NASC fleet. Operating expenses generated by the managed fleet are typically higher as these vessels are more expensive to operate. Operating expenses include only those costs incurred after the ships enter operation in the case of the ships acquired during the year.

In September 2018, NASC created DNA Shipping, a commercial agreement with Peter Döhle Schiffahrts-KG of Hamburg, Germany. The agreement is to pursue consolidation and growth within the multi-purpose project vessel (MPP) and 13,500 to 15,000 DWT mini-grabber dry-bulk markets.

During the quarter, a new joint venture, NovaAlgoma Bulk Holdings (NABH), was created. NABH has interests in four deep-sea bulkers operating internationally and is managed out of Lugano, Switzerland.

The *NACC Argonaut* began operations domestically in July bringing the total cement carriers owned by NovaAlgoma operating on the Great Lakes - St. Lawrence Waterway to three. In order to address the excess demand in the domestic market the *NACC Alicudi* was brought to North America during the quarter to assist the other two vessels on certain trade routes.

The outlook for Global Short Sea for the balance of the year remains favourable. The segment is still experiencing steady demand as market strength continues, resulting in higher daily rates for the NASC managed vessels; which now totals 17. Additionally, the *NACC Cozumel*, which is currently under conversion, is expected to begin operations in South Korea during the fourth quarter.

Investment Properties

The Company owns a shopping centre and an apartment building located in Sault Ste. Marie, Ontario. During 2017, the Company suspended on-going discussions regarding the sale of the shopping centre and adjacent apartment building pending development of a plan to re-lease the now vacant Sears Canada space. The Sears vacancy has created operating challenges for the Mall while the redevelopment plan is pursued.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 2,597	\$ 2,868	\$ 8,401	\$ 8,731
Operating expenses	(1,816)	(1,496)	(5,490)	(5,126)
	781	1,372	2,911	3,605
Depreciation	(653)	(563)	(2,124)	(4,284)
Income tax (expense) recovery	(34)	(214)	(201)	180
Net earnings (loss)	\$ 94	\$ 595	\$ 586	\$ (499)

Corporate

The Corporate segment consists of revenue from management services to third parties, head office expenditures and other administrative expenses of the Company. Revenues are also generated from rental income provided by third party tenants in the Company's head office building. Operating expenses include the operating costs of that office building.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 509	\$ 643	\$ 1,641	\$ 1,137
Operating expenses	(429)	(697)	(674)	(1,560)
Selling, general and administrative	(3,213)	(2,660)	(9,331)	(9,929)
	(3,133)	(2,714)	(8,364)	(10,352)
Depreciation	(213)	(338)	(696)	(539)
Income tax recovery	887	809	2,401	2,886
Net loss	\$ (2,459)	\$ (2,243)	\$ (6,659)	\$ (8,005)

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	\$ 158,729	\$ 137,200	\$ 358,658	\$ 313,438
Operating expenses	(110,168)	(89,647)	(268,039)	(234,681)
Selling, general and administrative	(6,751)	(5,832)	(21,027)	(20,749)
	41,810	41,721	69,592	58,008
Depreciation of property, plant, equipment, and intangibles	(14,243)	(12,164)	(40,927)	(38,452)
Interest expense	(4,624)	(1,930)	(9,658)	(4,106)
Interest income (see note on cancellation below)	1,891	348	2,441	899
Foreign currency (loss) gain	(1,819)	(795)	1,521	3,209
Income tax expense	(5,050)	(5,860)	(4,148)	(2,340)
Earnings of joint ventures	1,674	1,197	6,120	1,251
Net earnings from continuing operations	\$ 19,639	\$ 22,517	\$ 24,941	\$ 18,469

Revisions to Prior Year Comparatives

In the second quarter of 2018, the Company identified an immaterial error relating to an unrealized mark-to-market loss on a foreign exchange forward contract that was recorded as of December 31, 2017 resulting in a reduction in reported 2017 net earnings of \$2,605, and a subsequent mark-to-market gain resulting in an increase to reported March 31, 2018 net earnings of \$1,689. Certain comparative figures have been revised to reflect the correction of this error. See note 5 of the Interim Consolidated Financial Statements.

Interest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Interest expense on borrowings	\$ 4,469	\$ 4,891	\$ 13,355	\$ 12,778
Amortization of financing costs	288	950	861	1,385
Interest on employee future benefits, net	72	59	215	235
Interest capitalized (see note on cancellation below)	(205)	(3,970)	(4,773)	(10,292)
	\$ 4,624	\$ 1,930	\$ 9,658	\$ 4,106

Total interest paid on borrowings decreased by \$422 in the third quarter of 2018 and increased by \$577 for the nine months ended September 30, 2018 when compared to the previous year period. Net interest expense increased by \$2,694 in the third quarter of 2018 and by \$5,552 for the nine months ended September 30, 2018 when compared to the same periods in the previous year due to a rise in interest rates, high overall debt levels and reduced capitalized interest.

Interest is capitalized on vessels under construction and 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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Gain on foreign denominated cash	\$ 42	\$ 694	\$ 1,495	\$ 1,686
Gain on return of capital from foreign subsidiary	124	—	254	251
Loss on vessel instalment (see note on cancellation below)	(815)	—	(815)	—
Unrealized (loss) gain on foreign currency	(1,170)	(1,489)	587	1,272
	\$ (1,819)	\$ (795)	\$ 1,521	\$ 3,209

The gain on return of capital from a foreign subsidiary for the third quarters of 2018 and 2017 reflects the gains on U.S. dollar cash returned from the Company's non-controlled foreign investee.

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. Gains and losses 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.

Cancellation of Construction Contract of Hull 529

On September 28, 2018 the Company sent notice to the Croatian shipyard of its intention to cancel the construction of Hull 529. Under the terms of the construction contract, the Company had a unilateral right to cancel. Algoma exercised its option due to significant delays in delivery dates as a result of the shipyard's difficulties to secure financing.

The impact to the Statement of Earnings is as follows:

	Three Months September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Increase in interest income	\$ 1,657	\$ —	\$ 1,657	\$ —
Increase in operating expense	(30)	—	(30)	—
Decrease in capitalized interest	(1,461)	—	(1,461)	—
Foreign exchange loss on payments made to date	(815)	—	(815)	—
	\$ (649)	\$ —	\$ (649)	\$ —

The net impact to the Balance Sheet is as follows:

	September 30, 2018
Decrease to property, plant and equipment	\$ (12,189)
Increase to other current receivables	\$ 11,540

Subsequent to the quarter, notices of cancellation were issued to the shipyard for the remaining three contracts.

Income Tax Provision

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Combined federal and provincial statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Earnings before income tax from continuing operations and net earnings of joint ventures	\$ 23,015	\$ 27,180	\$ 22,969	\$ 19,558
Expected income tax expense	\$ (6,099)	\$ (7,203)	\$ (6,087)	\$ (5,183)
(Increase) decrease in expense resulting from:				
Effect of items that are not (deductible) taxable	(265)	588	56	236
Foreign tax rates different from Canadian statutory rate	1,128	1,241	2,135	2,274
Adjustments to prior period provision	—	(537)	(554)	(537)
Other	186	51	302	870
Actual tax expense	\$ (5,050)	\$ (5,860)	\$ (4,148)	\$ (2,340)

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 2018 and 2017 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 the third quarter 2018 were \$19,951 and \$34,238 for the nine months ended September 30, 2018 compared to earnings of \$31,859 and of \$23,264, respectively, for the same period in 2017. The decrease in comprehensive earnings for the quarter was primarily due to lower net earnings and the unrealized loss on translation of financial statements of foreign operations. The increase for the year to date was mainly due to an unrealized gain on the translation of financial statements of foreign operations, offset by lower net earnings.

The actuarial gain for employee future benefits, net of income tax in the third quarter 2018 was \$4,230 compared to \$7,794 for the same period in 2017 and for the nine month ended September 30, 2018 there was a gain of \$4,905 compared to \$412 in 2017.

Financial Condition, Liquidity and Capital Resources
Statement of Cash Flows

	Nine Months Ended September 30	
	2018	2017
Net earnings from continuing operations	\$ 24,941	\$ 18,469
Operating activities	\$ 52,035	\$ 29,828
Investing activities	\$ (66,559)	\$ (163,820)
Financing activities	\$ (32,903)	\$ 23,965
Cash from discontinued operations	\$ —	\$ 44,559

Operating Activities

Net cash generated from operating activities for the nine months ended September 30, 2018 was \$52,035 compared to cash generated of \$29,828 in the same period in 2017. This was mainly as a result of higher earnings from both continued operations and earnings from joint ventures in addition to an income tax refund.

Investing Activities

Net cash used in investing activities for the years ended 2018 and 2017 was primarily for instalments on new Equinox Class vessels that were under construction and investments in Global Short Sea Shipping. For the nine months ended 2018, net cash used in investing activities was significantly lower due to payment deferral agreements on the remaining Equinox Class vessels in the second quarter.

Financing Activities

Net cash used in financing activities relates to increased re-payments on long-term debt. This resulted in a significant decrease in cash at the end of the period compared to the prior year.

Capital Resources

The Company has cash on hand of \$22,490 at September 30, 2018. 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 under this Facility.

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 September 30, 2018, the Company was in compliance with all of its covenants.

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 Common 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.

During the third quarter of 2018 and during the nine months ended September 30, 2018, 39,300 and 91,700 shares, respectively, were purchased for cancellation.

Contingencies

For information on contingencies, please refer to Notes 30 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, 2017.

Transactions with Related Parties

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

There were no transactions with related parties for the nine months ended September 30, 2018.

New Accounting Standards Applied

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement. This final version includes requirements on: (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets; and (3) general hedge accounting. Accounting for macro hedging has been decoupled from IFRS 9. The Company has an accounting policy choice to apply the hedge accounting requirements of IFRS 9 or IAS 39. The Company has made the decision to continue applying the IAS 39 hedge accounting requirements at this time and will comply with the revised hedge accounting disclosures as required by the related amendments to IFRS 7, Financial Instruments: Disclosures.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied. The Company has made the decision not to restate comparative period financial information and has recognized any measurement difference between the previous carrying amount and the new carrying amount as of the date of adoption, through an adjustment to opening retained earnings.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on an entity's business model and the nature of the cash flows of the assets. These categories replace the existing IAS 39 classifications of available-for-sale ("AFS"), loans and receivables, and held-to-maturity. Investments in equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 did not result in differences in the measurement bases of financial assets when compared to that utilized under IAS 39.

For financial liabilities, IFRS 9 includes the pre-existing requirements for classification and measurement previously included in IAS 39.

The following table illustrates the financial instrument classification under IAS 39 compared to the new classification and measurement categories under IFRS 9.

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash	Loans & Receivables	Amortized cost
Accounts Receivable	Loans & Receivables	Amortized cost
Loans Receivable from Joint Ventures	Loans & Receivables	Amortized cost
Accounts Payable and Accrued Charges	Other financial liabilities	Amortized cost
Derivative Assets	FVTPL	FVTPL
Derivative Liabilities	FVTPL	FVTPL
Dividends Payable	Other financial liabilities	Amortized cost
Long-Term Debt	Other financial liabilities	Amortized cost

As noted above, these new categories under IFRS 9 do not change the basis on which financial assets and liabilities are being measured by the Company.

Impairment

IFRS 9 introduces an expected credit loss impairment model to replace the incurred loss model under IAS 39 and is generally expected to result in earlier recognition of credit losses. Under IFRS 9, the same impairment model is

applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The Company has assessed the new requirement and concluded the effect of the change was immaterial, as the Company anticipates very limited actual incurred losses on receivables, if any at all.

Revenue Recognition

In May 2014, the IASB issued the final version of IFRS 15, Revenue from Contracts with Customers, which replaces the detailed guidance on existing revenue recognition requirements and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognize revenue with the core principle being that entities should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The Principles in IFRS 15 must be applied using the following 5-step model:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit an entity from using alternative descriptions in the balance sheet. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company has elected to use the modified retrospective approach in accordance with paragraph C3(b) of IFRS 15 in transition to the standard, however, apart from providing more extensive disclosures of the Company's revenue transactions, the application of IFRS 15 has not had a material impact on the financial position and/or financial performance of the Company.

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.

The Company is currently evaluating the impact of this new standard.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

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 and the Chief Financial

Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2018. Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, management has concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018.

Internal Controls over Financial Reporting

The Company's management is responsible for designing, establishing and maintaining an adequate system of internal controls over financial reporting. The internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS. Because of inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

During the second quarter, management discovered an immaterial error in its financial reporting caused by a lapse in an internal control. In the fourth quarter of 2017 a foreign exchange forward contract was recorded without proper documentation resulting in erroneous recognition of a mark-to-market loss in the statement of earnings for the year ended December 31, 2017 and erroneous recognition of a mark-to-market gain in the statement of loss for the three month period ended March 31, 2018. Management has reviewed the processes for the recording of foreign exchange forward contracts with proper documentation and have remediated the associated internal control.

Management has used the criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal controls over financial reporting. Based on this assessment, management has concluded that the Company's internal controls over financial reporting are operating effectively as of September 30, 2018.

Changes in Internal Controls over Financial Reporting

During the quarter ended September 30, 2018, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Contractual Obligations

The table below provides aggregate information about the Company's contractual obligations at September 30, 2018 that affect the Company's liquidity and capital resource needs.

	2018	2019	2020	2021	2022 and Beyond	Total
Long-term debt including equity component	\$ 38,867	\$ 130	\$ 136	\$ 172,231	\$ 87,847	\$ 299,211
Capital asset commitments (see below)	—	18,435	—	—	—	18,435
Dividends payable	3,846	—	—	—	—	3,846
Interest payments on long-term debt	2,593	13,702	13,696	9,550	7,471	47,012
	\$ 45,306	\$ 32,267	\$ 13,832	\$ 181,781	\$ 95,318	\$ 368,504

As a result of the late delivery of the *Algoma Innovator*, the first of five ships under construction in Croatia, the Shipyard approached the Company to request extensions to the delivery and cancellation dates for the remaining four vessels. During the 2018 second quarter, the Company finalized the terms of an agreement with the Shipyard to extend the delivery and cancellation dates and defer all remaining payments until delivery is complete for these

vessels. In exchange, the Company received substantial discounts on the amounts due on three of the remaining vessels and obtained a right to cancel the fourth vessel. The Shipyard failed to make any progress on its re-financing during the third quarter. In order to protect our interests in respect of instalments paid to date on the four remaining vessels, the Company has exercised its rights to rescind the contracts. Prior to the end of the third quarter one contract cancellation notice was issued by Algoma and cancellation notices for the remaining three were issued shortly after quarter end. All related contract obligations have therefore been removed from the table of contractual obligations above.

Algoma Central Corporation
Interim Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2018 and 2017

Notice of disclosure of no auditor review of interim condensed consolidated financial statements pursuant to National Instrument 51-02, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators.

The accompanying interim condensed consolidated financial statements of Algoma Central Corporation for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company's management. The Company's independent auditors have not performed an audit or a review of these interim condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION
Interim Condensed Consolidated Statements of Earnings

For the Three and Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2018	2017	2018	2017
Revenue	6, 24	\$ 158,729	\$ 137,200	\$ 358,658	\$ 313,438
Expenses					
Operations	24	(110,168)	(89,647)	(268,039)	(234,681)
Selling, general and administrative		(6,751)	(5,832)	(21,027)	(20,749)
		(116,919)	(95,479)	(289,066)	(255,430)
		41,810	41,721	69,592	58,008
Depreciation of property, plant, equipment, and intangibles	24	(14,243)	(12,164)	(40,927)	(38,452)
Interest expense	9	(4,624)	(1,930)	(9,658)	(4,106)
Interest income	8	1,891	348	2,441	899
Foreign currency (loss) gain	10	(1,819)	(795)	1,521	3,209
		23,015	27,180	22,969	19,558
Income Tax Expense	11	(5,050)	(5,860)	(4,148)	(2,340)
Net Earnings of Joint Ventures	7	1,674	1,197	6,120	1,251
Net Earnings from Continuing Operations		19,639	22,517	24,941	18,469
Net Earnings from Discontinued Operations		—	10,251	—	24,358
Net Earnings		\$ 19,639	\$ 32,768	\$ 24,941	\$ 42,827
Basic Earnings per Share					
Continuing operations	20	\$ 0.51	\$ 0.58	\$ 0.65	\$ 0.47
Discontinued operations		—	0.26	—	0.63
		\$ 0.51	\$ 0.84	\$ 0.65	\$ 1.10
Diluted Earnings per Share					
Continuing operations	20	\$ 0.49	\$ 0.56	\$ 0.65	\$ 0.43
Discontinued operations		—	0.24	—	0.56
		\$ 0.49	\$ 0.80	\$ 0.65	\$ 0.99

See accompanying notes to the interim condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION
Interim Condensed Consolidated Statements of Comprehensive Earnings

For the Three and Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net Earnings	\$ 19,639	\$ 32,768	\$ 24,941	\$ 42,827
Other Comprehensive Earnings (Loss)				
Items that may be subsequently reclassified to net earnings:				
Unrealized (loss) gain on translation of financial statements of foreign operations	(6,026)	(11,035)	8,848	(21,900)
Unrealized gain (loss) on hedging instruments, net of income tax	2,108	1,524	(1,541)	2,496
Foreign exchange gain (loss) on purchase commitment hedge reserve, net of income tax, transferred to:				
Net earnings	—	—	(2,852)	—
Property, plant, and equipment	—	808	(63)	(571)
Items that will not be subsequently reclassified to net earnings:				
Employee future benefits actuarial gain, net of income tax	4,230	7,794	4,905	412
	312	(909)	9,297	(19,563)
Comprehensive Earnings	\$ 19,951	\$ 31,859	\$ 34,238	\$ 23,264

See accompanying notes to the interim condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION
Interim Condensed Consolidated Balance Sheets

As at September 30, 2018 and 2017

(Unaudited, in thousands of dollars)

	Notes	September 2018	December 2017 (Note 5)
Assets			
Current			
Cash		\$ 22,490	\$ 68,860
Accounts receivable		66,350	64,184
Income taxes recoverable		17,899	14,967
Assets of discontinued operations		—	973
Other current assets	12	28,469	12,998
		135,208	161,982
Employee Future Benefits		19,187	12,485
Property, Plant, and Equipment	13	777,580	769,845
Investment Properties	14	20,074	21,959
Goodwill and Intangible Assets	15	13,840	15,831
Investment in Joint Ventures	7	143,424	103,932
Other Assets	16	14,260	14,256
		\$ 1,123,573	\$ 1,100,290
Liabilities			
Current			
Accounts payable and accrued charges		\$ 64,681	\$ 69,622
Current portion of long-term debt	19	38,963	48,907
Income taxes payable		3,623	739
Liabilities of discontinued operations		—	1,488
Other current liabilities	17	3,538	5,848
		110,805	126,604
Other Long-Term Liabilities	18	1,954	4,925
Deferred Income Taxes		49,779	38,638
Employee Future Benefits		23,407	23,960
Long-Term Debt	19	252,909	243,097
		328,049	310,620
Commitments			
Shareholders' Equity			
Share Capital	20	8,248	8,268
Contributed Surplus		9,308	10,703
Convertible Debentures		2,309	2,309
Accumulated Other Comprehensive Loss	21	(19,115)	(23,507)
Retained Earnings		683,969	665,293
		684,719	663,066
		\$ 1,123,573	\$ 1,100,290

See accompanying notes to the interim condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION
Interim Condensed Consolidated Statements of Changes in Equity

 As at September 30, 2018 and 2017
 (Unaudited, in thousands of dollars)

	Share Capital (Note 20)	Contributed Surplus and Convertible Debentures	Accumulated Other Comprehensive Loss (Note 21)	Retained Earnings	Total Equity
Balance at December 31, 2016	\$ 8,344	\$ 16,547	\$ (3,845)	\$ 620,504	\$ 641,550
Net earnings	—	—	—	42,827	42,827
Dividends	—	—	—	(8,950)	(8,950)
Debenture issue	—	3,370	—	—	3,370
Other comprehensive loss	—	—	(19,975)	412	(19,563)
Balance at September 30, 2017	\$ 8,344	\$ 19,917	\$ (23,820)	\$ 654,793	\$ 659,234
Balance at December 31, 2017 (Note 5)	\$ 8,268	\$ 13,012	\$ (23,507)	\$ 665,293	\$ 663,066
Net earnings	—	—	—	24,941	24,941
Dividends	—	—	—	(11,170)	(11,170)
Repurchase and cancellation of common shares	(20)	(1,395)	—	—	(1,415)
Other comprehensive earnings	—	—	4,392	4,905	9,297
Balance at September 30, 2018	\$ 8,248	\$ 11,617	\$ (19,115)	\$ 683,969	\$ 684,719

See accompanying notes to the interim condensed consolidated financial statements.

ALGOMA CENTRAL CORPORATION
Interim Condensed Consolidated Statements of Cash Flows

 For the Nine Months ended September 30, 2018 and 2017
 (Unaudited, in thousands of dollars)

	Notes	2018	2017
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Net earnings from continuing operations		\$ 24,941	\$ 18,469
Earnings of joint ventures	7	(6,120)	(1,251)
Items not affecting cash			
Depreciation of property, plant, equipment, and intangibles	24	40,927	38,452
Gain on sale of assets		(4,587)	—
Foreign exchange, interest expense, and income tax expense		9,848	2,707
Net change in non-cash operating working capital		(14,641)	(12,120)
Income taxes received (paid)		4,038	(14,994)
Employee future benefits paid		(2,371)	(1,435)
Net cash generated from operating activities		52,035	29,828
Investing			
Additions to property, plant, and equipment	24	(41,907)	(129,251)
Additions to investment properties	14	(239)	—
Distributions received from joint ventures		26,545	3,096
Investment in joint ventures		(56,219)	(38,195)
Proceeds on sale of property, plant, and equipment		5,261	530
Net cash used in investing activities		(66,559)	(163,820)
Financing			
Interest paid		(14,681)	(14,156)
Interest received		228	—
Proceeds of long-term debt		98,090	181,046
Repayments on long-term debt		(104,250)	(133,975)
Repurchase of common shares		(1,393)	—
Dividends paid		(10,897)	(8,950)
Net cash (used in) generated from financing activities		(32,903)	23,965
Net Change in Cash from Continuing Operations		(47,427)	(110,027)
Cash Generated from Discontinued Operations		—	44,559
Net Change in Cash		(47,427)	(65,468)
Effects of Exchange Rate Changes on Cash Held in Foreign Currencies		1,057	(4,038)
Cash, Beginning of Period		68,860	130,039
Cash, End of Period		\$ 22,490	\$ 60,533

See accompanying notes to the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

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 interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2018 and 2017 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%), NovaAlgoma Short-Sea Holdings Ltd. (50%) and NovaAlgoma Bulk 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 one construction contract for an Equinox Class vessel 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, NovaAlgoma Short-Sea Holdings Ltd. and NovaAlgoma Bulk 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 financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and using the same accounting policies and methods as were used for the Company's Consolidated Financial Statements and the notes thereto for the years ended December 31, 2017 and 2016, except as described in Note 3. The financial statements should be read in conjunction with the Company's Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

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

The interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on November 12, 2018.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

APPLIED

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement. This final version includes requirements on: (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets; and (3) general hedge accounting. Accounting for macro hedging has been decoupled from IFRS 9. The Company has an accounting policy choice to apply the hedge accounting requirements of IFRS 9 or IAS 39. The Company has made the decision to continue applying the IAS 39 hedge accounting requirements at this time and will comply with the revised hedge accounting disclosures as required by the related amendments to IFRS 7, Financial Instruments: Disclosures.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with certain exceptions. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives as long as hindsight is not applied. The Company has made the decision not to restate comparative period financial information and will recognize any measurement difference between the previous carrying amount and the new carrying amount as of the date of adoption, through an adjustment to opening retained earnings.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on an entity's business model and the nature of the cash flows of the assets. These categories replace the existing IAS 39 classifications of available-for-sale ("AFS"), loans and receivables, and held-to-maturity. Investments in equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

The combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 did not result in differences in the measurement bases of financial assets when compared to that utilized under IAS 39.

For financial liabilities, IFRS 9 includes the pre-existing requirements for classification and measurement previously included in IAS 39.

The following table illustrates the financial instrument classification under IAS 39 compared to the new classification and measurement categories under IFRS 9.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash	Loans & Receivables	Amortized cost
Accounts Receivable	Loans & Receivables	Amortized cost
Loans Receivable from Joint Venture	Loans & Receivables	Amortized cost
Accounts Payable and Accrued Charges	Other financial liabilities	Amortized cost
Derivative Assets	FVTPL	FVTPL
Derivative Liabilities	FVTPL	FVTPL
Dividends Payable	Other financial liabilities	Amortized cost
Long-Term Debt	Other financial liabilities	Amortized cost

As noted above, these new categories under IFRS 9 do not change the basis on which financial assets and liabilities are being measured by the Company.

Impairment

IFRS 9 introduces an expected credit loss impairment model to replace the incurred loss model under IAS 39 and is generally expected to result in earlier recognition of credit losses. Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The Company has assessed the new requirement and concluded the effect of the change was immaterial, as the Company anticipates very limited actual incurred losses on receivables, if any at all.

Revenue Recognition

In May 2014, the IASB issued the final version of IFRS 15, Revenue from Contracts with Customers, which replaces the detailed guidance on existing revenue recognition requirements and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognize revenue with the core principle being that entities should recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The Principles in IFRS 15 must be applied using the following 5-step model:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit an entity from using alternative descriptions in the balance sheet. The Company has adopted the terminology used in IFRS 15 to describe such balances.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

The Company has elected to use the modified retrospective approach in accordance with paragraph C3(b) of IFRS 15 in transition to the standard, however, apart from providing more extensive disclosures of the Company's revenue transactions, the application of IFRS 15 has not had a material impact on the financial position and/or financial performance of the Company.

4. 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.

The Company is currently evaluating the impact of this new standard.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

5. REVISIONS TO PRIOR PERIOD COMPARATIVES

In the second quarter of 2018, the Company identified an immaterial error relating to the fair value measurement of a foreign exchange forward contract recorded as of December 31, 2017 and March 31, 2018, resulting in a reduction of 2017 previously reported net earnings of \$2,605, and a reduction of previously reported net loss for the three months ended March 31, 2018 of \$1,689. This immaterial error has been retrospectively adjusted in the balance sheet and statement of earnings as described below.

The impact on the comparative condensed consolidated statements of earnings (loss) is outlined in the table below. The resulting overstatement of derivative liabilities of \$3,003 and understatement of income taxes payable of \$398 as at December 31, 2017 has been adjusted in the comparative condensed consolidated balance sheets. The impact to the condensed consolidated balance sheet previously reported as at March 31, 2018 was an overstatement of derivative liabilities of \$1,056 and an understatement of income taxes payable of \$140. There has been no change to the previously reported cash flows from operating, investing, and financing activities in the comparative condensed consolidated statements of cash flow for any period and there was no impact to any other prior periods.

	Three Months Ended	Year Ended	Three Months Ended
	December 31, 2017	December 31, 2017	March 31, 2018
Impact on Net Earnings (Loss)			
Net earnings (loss) as previously reported	\$ 13,368	\$ 56,195	\$ (7,453)
Adjustment to unrealized gain (loss) on foreign currency	3,003	3,003	(1,947)
Adjustment to income tax (expense) recovery	(398)	(398)	258
Adjustment to net earnings (loss)	2,605	2,605	(1,689)
Adjusted net earnings (loss)	\$ 15,973	\$ 58,800	\$ (9,142)
Impact on Earnings per Share			
Basic weighted average number of shares outstanding	38,793,260	38,883,615	38,550,115
Impact of diluted securities			
Convertible unsecured subordinated debentures	3,900,709	4,514,862	3,900,709
Net earnings (loss) per share as previously reported:			
Basic	0.35	1.44	(0.19)
Diluted ¹	0.34	1.32	(0.19)
Impact of adjustment to net earnings (loss) per share:			
Basic	0.07	0.07	(0.04)
Diluted ¹	0.06	0.06	(0.04)
Adjusted net earnings (loss) per share:			
Basic	0.42	1.51	(0.23)
Diluted ¹	0.40	1.38	(0.23)

¹ For the periods in which the Company records a loss, diluted loss per share is calculated using the basic weighted average number of shares outstanding, as using the diluted weighted average number of shares outstanding in the calculation would be anti-dilutive.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

6. REVENUE
Disaggregation of Revenue

The Company derives its revenue from the transfer of services over time in the following major business segments. This is consistent with the total revenue that is disclosed for each reportable segment under IFRS 8.

Three Months Ended September 30, 2018	Domestic Dry-Bulk	Product Tankers	Ocean Self- Unloaders	Investment Properties	Corporate	Total
Contract of Affreightment	\$ 98,827	\$ 862	\$ —	\$ —	\$ —	\$ 99,689
Time Charter	1,010	30,371	—	—	—	31,381
Pool Revenue Share	—	—	24,262	—	—	24,262
Other	291	—	—	2,597	509	3,397
	\$ 100,128	\$ 31,233	\$ 24,262	\$ 2,597	\$ 509	\$ 158,729

Nine Months Ended September 30, 2018	Domestic Dry-Bulk	Product Tankers	Ocean Self- Unloaders	Investment Properties	Corporate	Total
Contract of Affreightment	\$ 195,107	\$ 1,677	\$ —	\$ —	\$ —	\$ 196,784
Time Charter	11,526	72,404	—	—	—	83,930
Pool Revenue Share	—	—	66,263	—	—	66,263
Other	1,639	—	—	8,401	1,641	11,681
	\$ 208,272	\$ 74,081	\$ 66,263	\$ 8,401	\$ 1,641	\$ 358,658

All segment revenue is recognized over time.

Contract modifications

The Company's contracts are amended occasionally for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue in one of the following ways:

- prospectively as an additional separate contract;
- prospectively as a termination of the existing contract and creation of a new contract;
- as part of the original contract using a cumulative catch up; or
- as a combination of b) and c).

Contracts for which the Company has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognized over time, the modification will always be treated under either a) or b). Option d) may arise when a contract has a partial termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognized may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly any variable consideration is only recognized to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Company has arrangements with some of its customers whereby it is required to determine if it acts as a principal or an agent as more than one party is involved in providing the services to the customer. The Company acts as a principal if it controls a promised service before transferring that good or service to the customer. The Company is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service.

This assessment of control requires judgement in particular in relation to certain service contracts. The Company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Company is acting as a principal, revenue is recorded on a gross basis. Where the Company is acting as an agent, revenue is recorded at a net amount reflecting the margin earned. In our pooling agreements the difference between these amounts is typically the fuel and voyage costs incurred to fulfill the contract obligation.

Contract related assets and liabilities

As a result of the contracts which the Company enters into with its customers, a number of different assets and liabilities are recognized on the Company's balance sheet. These may include but are not limited to:

- Property, plant and equipment
- Contract fulfilment assets
- Contract assets
- Trade receivables
- Accrued income
- Deferred income

Initial recognition of contract fulfilment assets

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If those other standards preclude capitalization of a particular cost, then an asset is not recognized under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of these criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

Under certain circumstance, the Company may incur costs to deliver its voyage or charter service in a more efficient way. The most common type of cost is vessel modification for specific needs in contracts with customers.

Treatment of contract fulfilment assets and capitalized costs to obtain a contract

The Company amortizes contract fulfilment assets and capitalized costs to obtain a contract to operations or selling expense over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

A contract fulfilment asset or capitalized costs to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Management is required to determine the recoverability of all contract related assets. At each reporting date, the Company determines whether or not the contract related assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific key performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Contract assets and liabilities

The Company's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided.

These payment schedules may include performance-based payments or progress payments as well as regular monthly payments for ongoing service delivery. Payments for transactional goods and services may be at the voyage start date, or at the beginning of each month for Time Charters. Where payments made are greater than the revenue recognized at the period end date, the Company recognizes a deferred income contract liability for this difference.

Where payments made are less than the revenue recognized at the period end date, the Company recognizes a contract asset for this difference. The contract asset represents the balance due from customers.

Contract assets	September 30, 2018
Unbilled revenue	\$ 14,854

The Company's contract liabilities balances solely relate to revenue from contracts with customers. Movements in the contract liabilities balances were driven by transactions entered into by the Company within the normal course of business in this quarter.

ALGOMA CENTRAL CORPORATION
Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

Contract liabilities	September 30, 2018
Current	\$ 91
Non-current	\$ —

7. JOINT VENTURES

The Company has a 50% interest in Marbulk Canada Inc., ("Marbulk") which owns and operates ocean-going vessels and participates in an international commercial arrangement, 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 Holdings Ltd., ("NASH") which owns and manages short sea dry-bulk vessels in global markets.

As of September 30, 2018, the Company is participating in a new joint arrangement in its Global Short Sea segment with a 50% ownership in NovaAlgoma Bulk Holdings Ltd ("NABH"), a joint venture created with Nova Marine Carriers. This joint venture owns and operates four deep sea vessels.

The revenues, expenses and net earnings of the joint ventures by segment for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Ocean Self- Unloaders	Global Short Sea Shipping	Ocean Self- Unloaders	Global Short Sea Shipping
Revenue	\$ 2,700	\$ 59,893	\$ 8,090	\$ 177,568
Operating expenses	(1,228)	(43,978)	(3,930)	(138,966)
General and administrative	(138)	(765)	(498)	(5,357)
Depreciation	(934)	(7,005)	(2,772)	(14,665)
Interest expense	(356)	(2,816)	(1,058)	(5,510)
Foreign exchange gain (loss)	(498)	379	898	(76)
Other income (expenses)	—	(107)	—	—
Earnings before income taxes	(454)	5,601	730	12,994
Net earnings of joint ventures	—	(406)	—	1,230
Net earnings attributable to non-controlling interest	—	(1,479)	—	(1,479)
Income tax expense	(174)	504	(398)	189
Net earnings	\$ (628)	\$ 4,220	\$ 332	\$ 12,934
Company share of net earnings	\$ (314)	\$ 2,110	\$ 166	\$ 6,467
Amortization of vessel purchase price allocation and intangibles	—	(122)	—	(513)
Company share included in net earnings of joint ventures	\$ (314)	\$ 1,988	\$ 166	\$ 5,954

ALGOMA CENTRAL CORPORATION
Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Ocean Self- Unloaders	Global Short Sea Shipping	Ocean Self- Unloaders	Global Short Sea Shipping
Revenue	\$ 5,164	\$ 88,016	\$ 12,358	\$ 140,099
Operating expenses	(3,283)	(79,673)	(8,562)	(121,685)
General and administrative	(76)	(2,242)	(402)	(4,515)
Depreciation	(997)	(2,764)	(3,062)	(6,619)
Interest expense	(356)	(436)	(1,060)	(2,224)
Foreign exchange gain (loss)	(1,132)	(103)	(2,218)	(17)
Other income	—	—	—	—
Earnings (loss) before income taxes	(680)	2,798	(2,946)	5,039
Net earnings of joint ventures	—	504	—	761
Income tax (expense) recovery	128	(230)	390	(350)
Net earnings (loss)	\$ (552)	\$ 3,072	\$ (2,556)	\$ 5,450
Company share of net earnings (loss)	\$ (276)	\$ 1,536	\$ (1,278)	\$ 2,725
Amortization of vessel purchase price allocation and intangibles	—	(63)	—	(196)
Company share included in net earnings of joint ventures	\$ (276)	\$ 1,473	\$ (1,278)	\$ 2,529

The Company's total share of net earnings of the jointly controlled operations by segment for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Ocean Self-Unloaders	\$ (314)	\$ (276)	\$ 166	\$ (1,278)
Global Short Sea Shipping	1,988	1,473	5,954	2,529
	\$ 1,674	\$ 1,197	\$ 6,120	\$ 1,251

ALGOMA CENTRAL CORPORATION
Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

The assets and liabilities of the joint ventures by segment at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018		December 31, 2017	
	Ocean Self-Unloaders	Global Short Sea Shipping	Ocean Self-Unloaders	Global Short Sea Shipping
Cash	\$ 4,603	\$ 11,380	\$ 3,730	\$ 10,187
Other current assets	1,452	48,883	1,722	38,053
Income taxes recoverable	49	—	592	22
Property, plant, and equipment	31,915	422,400	33,640	237,215
Investment in joint ventures	—	18,663	—	3,608
Intangible asset	686	—	924	—
Other assets	—	9,863	30	35,255
Current liabilities	(1,944)	(41,146)	(1,136)	(56,895)
Due to owners	(30,015)	—	(28,488)	—
Long-term debt	—	(220,407)	—	(115,135)
Other long-term liabilities	—	(14,853)	—	(909)
Deferred income taxes	—	—	—	(880)
Non-controlling interest	—	(1,357)	—	—
Net assets of jointly controlled operations	\$ 6,746	\$ 233,426	\$ 11,014	\$ 150,521
Company share of net assets	\$ 3,373	\$ 116,713	\$ 5,507	\$ 75,261
Goodwill and other purchase price adjustments	—	23,338	—	23,164
Company share of joint venture	\$ 3,373	\$ 140,051	\$ 5,507	\$ 98,425

The Company's net investment in the jointly controlled operations by segment at September 30, 2018 and December 31, 2017 are as follows:

	2018	2017
Ocean Self-Unloaders	\$ 3,373	\$ 5,507
Global Short Sea Shipping	140,051	98,425
	\$ 143,424	\$ 103,932

8. CANCELLATION OF SHIPBUILDING CONTRACTS

On September 28, 2018, the Company sent a Notice of Rescission to Uljanik d.d to cancel the shipbuilding contract for the construction of one Equinox self-unloader. All construction instalments made by the Company were requested to be refunded with interest. This transaction impacted the following components in the quarter:

2018

Interest income on instalments	\$ 1,657
Write-off of supervision and other direct costs	(30)
Write-off of capitalized interest relating to ship construction	(1,461)
Foreign exchange loss	(815)
Loss on cancellation of shipbuilding contract	(649)
Income tax expense	56
	\$ (593)

Subsequent to the quarter, notices of cancellations were issued to the shipyard in Croatia for the remaining three Equinox vessel contracts. The process has begun for reimbursement of contract instalments paid to date and related interest, including issuing demands under related refund guarantees of approximately \$100,000.

9. INTEREST EXPENSE

The components of interest expense are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Interest expense on borrowings	\$ 4,469	\$ 4,891	\$ 13,355	\$ 12,778
Amortization of financing costs	288	950	861	1,385
Interest on employee future benefits, net	72	59	215	235
Interest capitalized on vessels under construction, net of write-off (Note 8)	(205)	(3,970)	(4,773)	(10,292)
	\$ 4,624	\$ 1,930	\$ 9,658	\$ 4,106

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months ended September 30, 2018 and 2017

(Unaudited, in thousands of dollars, except per share data)

10. FOREIGN CURRENCY GAIN/(LOSS)

The components of net gain (loss) on foreign currency are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Gains on foreign denominated cash	\$ 42	\$ 694	\$ 1,495	\$ 1,686
Gain on return of capital from foreign subsidiary	124	—	254	251
Foreign exchange loss on vessel instalment (Note 8)	(815)	—	(815)	—
Unrealized gain (loss) on foreign currency	(1,170)	(1,489)	587	1,272
	\$ (1,819)	\$ (795)	\$ 1,521	\$ 3,209

See Note 21 for the Company's hedge accounting policies relating to foreign currency translation gains and losses on long-term debt and U.S. cash.

11. INCOME TAXES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Combined federal and provincial statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Earnings before income tax from continuing operations and net earnings of joint ventures	\$ 23,015	\$ 27,180	\$ 22,969	\$ 19,558
Expected income tax (expense) recovery	\$ (6,099)	\$ (7,203)	\$ (6,087)	\$ (5,183)
(Increase) decrease in expense resulting from:				
Effect of items that are not (deductible) taxable	(265)	588	56	236
Foreign tax rates different from Canadian statutory rate	1,128	1,241	2,135	2,274
Adjustments to prior period provision	—	(537)	(554)	(537)
Other	186	51	302	870
	\$ (5,050)	\$ (5,860)	\$ (4,148)	\$ (2,340)

ALGOMA CENTRAL CORPORATION

Notes to the Interim Condensed Consolidated Financial Statements

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12. OTHER CURRENT ASSETS

The components of other current assets are as follows:

	September 30 2018	December 31 2017
Materials and supplies	\$ 9,646	\$ 9,218
Prepaid expenses	6,072	3,709
Loan interest receivable	530	—
Derivative asset	681	71
Instalment refunds (Note 8)	11,540	—
	\$ 28,469	\$ 12,998

13. PROPERTY, PLANT, AND EQUIPMENT

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

Cost	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self- Unloaders	Total
Balance at December 31, 2017	\$ 8,113	\$ 826,167	\$ 193,558	\$ 236,688	\$ 1,264,526
Transfers	9,338	(9,338)	—	—	—
Additions	190	40,581	3,314	7,190	51,275
Disposals	—	(123,090)	—	—	(123,090)
Fully depreciated assets no longer in use	—	(1,247)	(1,927)	(4,316)	(7,490)
Cancellation of shipbuilding contract	—	(12,189)	—	—	(12,189)
Effect of foreign currency exchange differences	—	—	—	7,542	7,542
Balance at September 30, 2018	\$ 17,641	\$ 720,884	\$ 194,945	\$ 247,104	\$ 1,180,574

ALGOMA CENTRAL CORPORATION

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Accumulated depreciation	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Total
Balance at December 31, 2017	\$ 3,359	\$ 323,131	\$ 100,601	\$ 67,590	\$ 494,681
Transfers	6,525	(6,525)	—	—	—
Depreciation expense	696	16,785	7,040	11,849	36,370
Disposals	—	(122,724)	—	—	(122,724)
Fully depreciated assets no longer in use	—	(1,247)	(1,927)	(4,316)	(7,490)
Effect of foreign currency exchange differences	—	—	—	2,157	2,157
Balance at September 30, 2018	\$ 10,580	\$ 209,420	\$ 105,714	\$ 77,280	\$ 402,994

Net Book Value	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Total
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
September 30, 2018					
Cost	\$ 17,641	\$ 720,884	\$ 194,945	\$ 247,104	\$ 1,180,574
Accumulated depreciation	10,580	209,420	105,714	77,280	402,994
	\$ 7,061	\$ 511,464	\$ 89,231	\$ 169,824	\$ 777,580

Property, plant and equipment include \$89,398 of instalments and related soft costs on shipbuilding construction contracts cancelled subsequent to the quarter end (Note 8).

14. INVESTMENT PROPERTIES

The Company owns a shopping centre and apartment building located in Sault Ste. Marie, Ontario. The Company decided in June 2017 to suspend on-going discussions regarding the sale of the shopping centre and adjacent apartment building until the uncertainty created by the Sears Canada closure is resolved. These properties have been reclassified from discontinued operations into continuing operations as Investment Properties in 2017. In accordance with IFRS 5, the historical operating results of these properties were 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 was recorded in the second quarter of 2017 as though the asset had not been originally classified as held for sale.

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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
Additions	239	2,124	(1,885)
Balance, September 30, 2018	\$ 58,129	\$ 38,055	\$ 20,074

ALGOMA CENTRAL CORPORATION

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15. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	Goodwill	Intangible Assets	Total
Balance at January 1, 2017	\$ 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
Additions	—	—	—
Amortization	—	(2,433)	(2,433)
Effect of foreign currency exchange differences	—	442	442
Balance at September 30, 2018	\$ 7,910	\$ 5,930	\$ 13,840

Goodwill

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

Intangible Assets

The Company owns 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.

16. OTHER ASSETS

Other assets consist of the following:

	September 30 2018	December 31 2017
Loan receivable from joint venture, interest at 4.98%	\$ 14,244	\$ 14,244
Other	16	12
	\$ 14,260	\$ 14,256

ALGOMA CENTRAL CORPORATION**Notes to the Interim Condensed Consolidated Financial Statements**

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17. OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

	September 30 2018	December 31 2017
		(Note 5)
Dividends payable	\$ 837	\$ 565
Derivative liabilities	2,593	5,118
Compensation payable to Pool members	108	165
	\$ 3,538	\$ 5,848

18. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	September 30 2018	December 31 2017
Compensation payable to Pool members	\$ 2,062	\$ 5,090
Less: current portion	108	165
	\$ 1,954	\$ 4,925

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 is payable in four equal annual instalments that commenced April 1, 2017.

ALGOMA CENTRAL CORPORATION

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19. LONG-TERM DEBT

	September 30 2018	December 31 2017
Convertible unsecured subordinated debentures, due June 30, 2024, interest at 5.25%	\$ 79,810	\$ 79,338
Senior Secured Notes, due July 19, 2021		
U.S. \$75,000, interest fixed at 5.11%	97,088	94,088
Canadian \$75,000, interest fixed at 5.52%	75,000	75,000
Bank Facility, due July 15, 2020		
LIBOR, U.S. \$30,000, due December 17, 2018, interest at 4.33%	38,835	—
LIBOR, U.S. \$20,000, due January 19, 2018, interest at 3.50%	—	25,090
Base rate loan, interest at 6%	—	18,817
Prime rate loan, interest at 4.2%	—	5,000
Mortgage payable, due March 8, 2023, interest at 4.73%	5,788	—
	296,521	297,333
Less: unamortized financing expenses	4,649	5,329
	291,872	292,004
Less: current portion of long-term debt	38,963	48,907
	\$ 252,909	\$ 243,097

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 September 30, 2018 and December 31, 2017 the Company was in compliance with all of its covenants.

20. SHARE CAPITAL

Share capital

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

The Company has 38,460,615 common shares outstanding as at September 30, 2018 (December 31, 2017 - 38,552,315).

At September 30, 2018 and December 31, 2017 there were no preferred shares issued and outstanding.

The Company's Board of Directors on November 12, 2018 authorized payment of a quarterly dividend to shareholders of \$0.10 per common share. The dividend is payable on December 3, 2018 to shareholders of record on November 19, 2018.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net earnings from continuing operations for basic earnings per share	\$ 19,639	\$ 22,517	\$ 24,941	\$ 18,469
Interest expense on debentures, net of tax	992	1,352	2,945	3,772
Net earnings from continuing operations for diluted earnings per share	\$ 20,631	\$ 23,869	\$ 27,886	\$ 22,241
Basic weighted average common shares	38,472,782	38,913,733	38,513,259	38,913,733
Shares due to dilutive effect of debentures	3,900,709	3,900,709	3,900,709	6,212,545
Diluted weighted average common shares	42,373,491	42,814,442	42,413,968	45,126,278
Basic earnings per common share from continuing operations	\$ 0.51	\$ 0.58	\$ 0.65	\$ 0.47
Diluted earnings per common share from continuing operations	\$ 0.49	\$ 0.56	\$ 0.65	\$ 0.43

Normal Course Issuer Bid

On January 23, 2018, Algoma filed a notice of intention to make a normal course issuer bid ("NCIB") with the Toronto Stock Exchange advising of its intention to purchase up to 1,927,615 of its common shares representing approximately 5% of the common shares issued and outstanding as of the close of business on January 16, 2018.

Under the NCIB, the Company may purchase up to 1,838 common shares per day, representing 25% of the average daily trading volume during the six months ending December 31, 2017. The Company may buy back common shares anytime during the twelve-month period beginning on January 29, 2018 and ending on January 28, 2019. The stated capital of the common shares of \$0.21 per share on the balance sheet equals the approximate paid-up capital amount of the common shares for purposes of the Income Tax Act. The purchase results in a reduction to share capital and a reduction to contributed surplus for the balance of the purchase price and expenses. Both items have been identified separately on the Consolidated Statements of Changes in Equity.

Substantial Issuer Bid

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

The Common 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).

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Notes to the Interim Condensed Consolidated Financial Statements

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21. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Hedges		Foreign exchange translation	Total
	Net investment	Purchase commitment		
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 earnings	—	(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)
(Loss) gain	(4,364)	2,588	8,848	7,072
Reclassified to earnings	—	(3,288)	—	(3,288)
Reclassified to property, plant, and equipment	—	(72)	—	(72)
Income tax recovery	578	102	—	680
Net (loss) gain	(3,786)	(670)	8,848	4,392
Balance at September 30, 2018	\$ (16,965)	\$ (5)	\$ (2,145)	\$ (19,115)

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 are reclassified to property, plant, and equipment when the payments to the shipyard 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.

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22. COMMITMENTS

The Company has one remaining commitment for the construction of one Equinox Class vessel. The payment of \$18,435 (\$14,000 US) is expected in early 2019. The expected payment dates for the Equinox Class vessel have been based on management's estimate of the current stage of completion of the vessel. For information relating to the construction of other vessels, see Note 8.

23. 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:

	September 30 2018	December 31 2017 (Note 5)
Financial assets carrying and fair value:		
Cash	\$ 22,490	\$ 68,860
Accounts receivable	\$ 66,350	\$ 64,184
Derivative asset	\$ 681	\$ 83
Instalment refund	\$ 11,540	\$ —
Loan interest receivable	\$ 530	\$ —
Other assets	\$ 14,260	\$ 14,256
Financial liabilities carrying and fair value:		
Accounts payable and accrued charges	\$ 64,681	\$ 69,622
Dividends payable	\$ 837	\$ 565
Derivative liabilities	\$ 2,593	\$ 5,118
Compensation payable to Pool members	\$ 2,062	\$ 5,090
Carrying value of long-term debt	\$ 296,521	\$ 297,333
Fair value of long-term debt	\$ 302,652	\$ 307,734

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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.

Liquidity risk

The contractual maturities of non-derivative financial liabilities are as follows:

	2018	2019	2020	2021	2022 and Beyond	Total
Long-term debt including equity component	\$ 38,867	\$ 130	\$ 136	\$ 172,231	\$ 87,847	\$ 299,211
Capital asset commitments	—	18,435	—	—	—	18,435
Dividends payable	3,846	—	—	—	—	3,846
Interest payments on long-term debt	2,593	13,702	13,696	9,550	7,471	47,012
	\$ 45,306	\$ 32,267	\$ 13,832	\$ 181,781	\$ 95,318	\$ 368,504

Foreign currency exchange risk

At September 30, 2018 and December 31, 2017, approximately 34% and 24% respectively of the Company's total assets were denominated in U.S. dollars, including U.S. cash of \$4,276 and \$29,516 at September 30, 2018 and December 31, 2017, respectively.

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 September 30, 2018 the Company had Euro denominated foreign exchange forward contracts outstanding with a notional principal of €nil and a fair value loss of \$2,575 (December 31, 2017 - \$7,377), and U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of \$17,000 (December 31, 2017 - \$24,840) and fair value gain of \$663 (December 31, 2017 - loss of \$663). The contract maturities are as follows: 2018 - €nil, U.S. - \$3,000, 2019 - U.S. - \$14,000.

24. SEGMENT DISCLOSURES

The Company operates through six segments; Domestic Dry-Bulk, Product Tankers, Ocean Self-Unloaders, Global Short Sea Shipping, Investment Properties and Corporate. 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.

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	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenues				
Domestic Dry-Bulk	\$ 100,128	\$ 89,540	\$ 208,272	\$ 188,919
Product Tankers	31,233	25,247	74,081	59,577
Ocean Self-Unloaders	24,262	18,902	66,263	55,074
	155,623	133,689	348,616	303,570
Investment Properties	2,597	2,868	8,401	8,731
Corporate	509	643	1,641	1,137
	\$ 158,729	\$ 137,200	\$ 358,658	\$ 313,438
Operating Expenses				
Domestic Dry-Bulk	\$ 67,651	\$ 60,413	\$ 160,344	\$ 147,649
Product Tankers	25,911	17,259	59,294	47,958
Ocean Self-Unloaders	14,361	9,782	42,237	32,388
	107,923	87,454	261,875	227,995
Investment Properties	1,816	1,496	5,490	5,126
Corporate	429	697	674	1,560
	\$ 110,168	\$ 89,647	\$ 268,039	\$ 234,681

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Net Earnings from Continuing Operations	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Operating earnings (loss) net of income tax				
Domestic Dry-Bulk	\$ 17,426	\$ 15,992	\$ 16,486	\$ 13,745
Unrealized (loss) gain on foreign currency exchange contracts and cancellation of shipbuilding contract	(1,577)	(1,291)	(54)	1,103
	15,849	14,701	16,432	14,848
Product Tankers	1,669	4,596	4,144	2,832
Ocean Self-Unloaders	4,354	4,553	8,622	8,100
Global Short Sea Shipping	1,988	1,473	5,954	2,529
	23,860	25,323	35,152	28,309
Investment properties	94	595	586	(499)
Corporate	(2,459)	(2,243)	(6,659)	(8,005)
Segment operating earnings (loss)	21,495	23,675	29,079	19,805
Not specifically identifiable to segments:				
Interest expense	(2,325)	(1,419)	(6,025)	(3,018)
Interest income	172	256	576	661
Foreign currency (loss) gain	122	510	1,286	1,424
Income tax recovery (expense)	175	(505)	25	(403)
	\$ 19,639	\$ 22,517	\$ 24,941	\$ 18,469

Assets	September 30 2018	December 31 2017
Domestic Dry-Bulk	\$ 588,298	\$ 561,988
Product Tankers	93,410	104,695
Ocean Self-Unloaders	187,296	190,421
Global Short Sea Shipping	140,051	98,425
Assets of discontinued operations held for sale	—	973
Total assets allocated to segments	1,009,055	956,502
Not specifically identifiable to segments	114,518	143,788
	\$ 1,123,573	\$ 1,100,290

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Additions to Property, Plant, Equipment, and Intangibles	Nine Months Ended September 30	
	2018	2017
Domestic Dry-Bulk	\$ 40,581	\$ 116,712
Product Tankers	3,314	244
Ocean Self-Unloaders	7,190	2,904
Corporate	190	89
Total per property, plant, and equipment note (Note 13)	51,275	119,949
Capitalized interest (Note 9)	(4,773)	(10,292)
Amounts included in working capital	(4,595)	19,594
Total per cash flow statement	\$ 41,907	\$ 129,251

Depreciation of Property, Plant, Equipment, and Intangibles	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Domestic Dry-Bulk	\$ 5,999	\$ 4,974	\$ 16,785	\$ 14,381
Product Tankers	2,356	2,185	7,040	6,562
Ocean Self-Unloaders	5,022	4,104	14,282	12,686
	13,377	11,263	38,107	33,629
Investment Properties	653	563	2,124	4,284
Corporate	213	338	696	539
	\$ 14,243	\$ 12,164	\$ 40,927	\$ 38,452

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	September 30	December 31
Liabilities	2018	2017
		(Note 5)
Domestic Dry-Bulk	\$ 77,119	\$ 55,105
Product Tankers	24,356	22,887
Ocean Self-Unloaders	11,591	12,060
Liabilities of discontinued operations held for sale	—	1,488
	113,066	91,540
Not specifically identifiable to segments		
Current liabilities	9,850	6,607
Other	315,938	339,077
	\$ 438,854	\$ 437,224



2018