ALGOMA CENTRAL CORPORATION 2019 FINANCIAL RESULTS

For the Years Ended December 31, 2019 and 2018

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General

This Management's Discussion and Analysis ("MD&A") of the Company should be read in conjunction with its interim consolidated financial statements for the year ended December 31, 2019 and 2018 and related notes thereto and has been prepared as at February 27, 2020.

This 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 2019 Annual Information Form, is available on the SEDAR website at *www.sedar.com* or on the Company's website at *www.algonet.com*.

Important Information About This MD&A

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.

Ocean Self-Unloaders

Algoma participates in the world's largest pool of ocean-going self-unloaders (the "Pool"). The Pool's commercial results reflect a pro-rata share of Pool revenue and voyage costs (in operating expenses) for eight 100% owned ships. Vessel operating expenses for these ships are recorded in operating expenses. Earnings from partially owned ships are included in the Company's joint venture, Marbulk. 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.

Global Short Sea Shipping

Revenue from the Global Short Sea segment, in which we participate via joint ventures, is not included in the consolidated revenue figure. 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.

Use of Non-GAAP Measures

The following summarizes non-GAAP financial measures utilized in this 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 and the Company includes 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 metric that is based on it is used by credit providers in the financial covenants of the Company's senior secured 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.
Return on equity is net earnings as a percent of average shareholders' equity.

Impact of Seasonality on the Company

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.

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 2020 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:

- general economic and market conditions in the countries in which we operate;
- our ability to attract and retain quality employees;
- 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;
- on-time and on-budget delivery of new ships from shipbuilders;
- 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;
- the seasonal nature of our business; and
- risks associated with the lease and ownership of real estate.

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.

For more information, please see the discussion of risks in the Company’s Annual Information Form for the year ended December 31, 2019, which outlines in detail certain key factors that may affect the Company’s future results. The Annual Information Form can be found on the Company's website at www.algonet.com and on SEDAR at www.sedar.com.

Financial Highlights

Consolidated revenue for 2019 was $567,908, an increase of 12% compared to $508,201 reported in 2018. The increase in revenue was primarily a result of having additional vessels in operation, improved rates and strong customer demand in both the Product Tanker and Ocean Self-Unloader segments. In the Domestic Dry-Bulk segment, revenue decreased due to lower overall volumes which was attributable to the reduction in capacity compared to 2018. This was offset by strong freight rates as a result of favourable contract renewals.

The Global Short Sea Shipping businesses generated revenues in 2019 of $255,559 compared to $277,013 for the prior year. The Company has a 50% interest in these businesses.

Operating earnings increased by $12,107 or 26% in 2019 compared to the previous year; however, net earnings in 2019 were $24,159, a decrease of $26,784 compared to 2018. Net earnings in 2018 include an after tax gain of $10,214 on certain shipbuilding contract cancellations whereas earnings in 2019 include a $15,542 impairment provision from the Company's investment in the NovaAlgoma Short Sea Carrier joint venture. Adjusting for these two items, net earnings were down approximately $1,028 compared to 2018.

For the years ended December 31	2019	2018
Revenue	**$ 567,908**	$ 508,201
Operating earnings	**$ 58,370**	$ 46,263
Net earnings	**$ 24,159**	$ 50,943
Basic earnings per common share	**$ 0.63**	$ 1.32
As at December 31		
Common shares outstanding	**37,824,543**	38,421,615
Total assets	**$ 1,147,377**	$ 1,111,893
Total long-term financial liabilities	**$ 334,853**	$ 258,588

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 comparable IFRS measure. EBITDA was $157,427 compared to $128,748 for the same period in 2018. EBITDA is determined as follows:

For the years ended December 31	2019	2018
Net earnings	**$ 24,159**	$ 50,943
Adjustments to net earnings:		
Depreciation and amortization	**70,015**	55,714
Impairment reversal	**—**	(5,647)
Interest, net	**18,693**	11,747
Foreign currency loss (gain)	**886**	(9,590)
Income tax expense	**5,109**	8,550
Joint ventures		
Interest expense	**6,167**	4,923
Foreign exchange loss (gain)	**884**	(1,079)
Depreciation	**15,608**	12,658
Impairment of investment in joint ventures	**15,970**	—
Income tax (recovery) expense	**(64)**	529
EBITDA	**$ 157,427**	$ 128,748

2020 Outlook

At this time the Company is not experiencing any impact from the Coronavirus outbreak or the pipeline protests. We are continuously monitoring both situations and will provide any updates as necessary.

Domestic Dry-Bulk

As the Algoma fleet is expected to remain at 19 vessels in 2020, we are expecting cargo volumes to rise slightly with fewer ship out of service days. Favourable contract renewals have resulted in improved rates, and we are therefore optimistic at the outlook for the year.

As we have noted in prior year reports, we invested in exhaust gas scrubber technology by installing closed-loop scrubbers in all of our new Equinox class vessels. For 2020, we will complete our first retrofit of a closed-loop scrubber to an existing ship when the Algoma Mariner is fitted with a scrubber during the winter lay-up. Completion of this work will bring the number of ships fitted with this technology to a total of nine. This will increase to 11 ships when we take delivery of the new-builds that are now under construction. Our investment in closed-loop

scrubbers enables Algoma’s dry-bulk Lakers to burn heavy fuel oil while meeting or exceeding regulations governing maximum sulphur oxide emissions. This eliminates the need for these ships to switch to more

costly low-sulphur or marine diesel fuels. We expect to recoup our investment in the technology by using the lower cost fuel oils on our scrubbed ships. While we made the original investment decision to ensure our new ships were environmentally sustainable, the economics of the investment are impacted positively by a widening spread between the cost of heavy fuels and low sulphur alternatives. As 2020 begins, this spread has approached record levels, due in part to the shifting market demand for low sulphur fuels as other fleets switch fuels to comply with IMO 2020. As Algoma is the only Canadian operator to have installed scrubbers and is the largest operator of scrubber-equipped vessels on the Great Lakes, we are currently benefiting from the price spread. It is impossible to predict if the price spread we are currently seeing in the market is sustainable, but we do expect heavy fuels to continue to be a cheaper alternative even as the market supply adjusts to the new IMO 2020 based demand dynamics. Over the past 24 months, 60% of our domestic dry-bulk contract base has been renewed. The contract renewals include improved freight rates and the segment has experienced positive results as a consequence. Only 9% of our contract base is up for renewal in 2020.

Availability of qualified crew still remains an industry issue. The Company has committed to increase its efforts in training and retention in 2020. Pilotage and availability of crew able to self-pilot our vessels will also be a focus and will require additional crew training.

Product Tankers

In the Product Tanker segment, demand over the last few years has been extraordinarily high; however, moving into 2020, demand is expected to return to more normal levels due to a reduction in refinery turnarounds by our major customer.

The Product Tanker segment will also experience an increase in dry-dock expense as the Algoterra will undergo a planned regulatory dry-docking in 2020. An additional three vessels are scheduled to undergo regulatory surveys during 2020 but will not require dry-dockings.

Additionally, fuel costs are expected to rise in 2020 as a result of our product tanker fleet, following a transition period, switching to diesel fuel as part of IMO 2020 regulations. Although diesel fuel is more expensive than heavy fuel, the cost will pass through to the customer. Utilization for the tanker fleet is expected to be similar to actual 2019 utilization; lower results for the year will be affected by the dry-docking and survey costs.

Ocean Self-Unloaders

The Pool is projecting a modest increase in customer demand, and volumes and freight rates are expected to improve slightly. Our own ships will be impacted by dry-dockings in 2020. Five ships will undergo planned dry-docking, including all three of our newly acquired vessels. This will impact revenue days and costs. Total dry-docking days in 2020 will approximate the vessel days gained from having the newly acquired ships for the full year. These ships were acquired in June, 2019.

The ocean self-unloader fleet will also be affected by IMO 2020 regulations. The fleet will transition from heavy fuel to diesel, raising fuel costs; similar to our product tanker segment, these costs are passed through to the customer.

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
2019	Quarter 4	$ 168,985	$ 3,796	$ 0.10
	Quarter 3	$ 167,901	$ 21,049	$ 0.55
	Quarter 2	$ 159,169	$ 22,114	$ 0.58
	Quarter 1	$ 71,853	$ (22,800)	(0.59)
2018	Quarter 4	$ 149,542	$ 26,003	$ 0.68
	Quarter 3	$ 158,729	$ 19,639	$ 0.51
	Quarter 2	$ 139,442	$ 14,445	$ 0.38
	Quarter 1	$ 60,488	$ (9,142)	$ (0.23)

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

		Trailing Twelve Months				
Year	Quarter	Revenue	Net Earnings	Basic Earnings per Share	Adjustment to Basic Earnings per Share *	Adjusted Basic Earnings per Share
2019	Quarter 4	$ 567,908	$ 24,159	$ 0.63	$ 0.42	$ 1.05
	Quarter 3	$ 548,465	$ 46,364	$ 1.21	$ (0.28)	$ 0.93
	Quarter 2	$ 539,566	$ 44,954	$ 1.17	$ (0.26)	$ 0.91
	Quarter 1	$ 519,566	$ 37,285	$ 0.97	$ (0.26)	$ 0.71
2018	Quarter 4	$ 508,201	$ 50,943	$ 1.32	$ (0.26)	$ 1.06
	Quarter 3	$ 498,094	$ 40,915	$ 1.06	$ 0.03	$ 1.09
	Quarter 2	$ 476,565	$ 54,044	$ 1.40	$ (0.27)	$ 1.13
	Quarter 1	$ 461,270	$ 68,763	$ 1.77	$ (0.62)	$ 1.15

* 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.

	2017			2018				2019			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(Loss) gain on shipbuilding contracts	$ —	$ —	$ —	$ —	$ —	$ (0.02)	$ 0.15	$ —	$ —	$ —	$ —
Impairment reversals (provisions)	—	—	—	—	—	—	0.13	—	—	—	(0.42)
Sale of real estate properties	0.35	0.28	(0.01)	—	—	—	—	—	—	—	—
	$ 0.35	$ 0.28	$ (0.01)	$ —	$ —	$ (0.02)	$ 0.28	$ —	$ —	$ —	$ (0.42)
Trailing adjustment to EPS				$ 0.62	$ 0.27	$ (0.03)	$ 0.26	$ 0.26	$ 0.26	$ 0.28	$ (0.42)

Business Segment Discussion

Domestic Dry-Bulk

The Domestic Dry-Bulk segment includes the activities of the Company's Canadian flag dry-bulk vessels and its ship management business. During 2019, the Company operated 11 self-unloading bulk carriers and 8 gearless bulk carriers in its fleet. One of the bulk carriers is owned by a third party.

Financial Results Overview

Revenues for the Domestic Dry-Bulk segment decreased by 5% compared to 2018; this was attributable to a number of underlying factors. Overall volumes were down 5.5% which was primarily a result of a reduction in capacity compared to 2018 with one fewer vessel in operations; however, the reduction in volumes was offset by strong freight rates as a result of favourable contract renewals. Gross freight revenue per tonne increased 3% compared to 2018 and on a per vessel basis, vessel earnings were slightly higher in 2019.

An additional contributor to the decrease in revenue was a drop in the price of fuel, which is a large component of revenue as we pass this cost through to customers. The impact of lower fuel prices for the year contributed to a 17% decrease in fuel revenue, offset by a corresponding decrease in daily fuel expense.

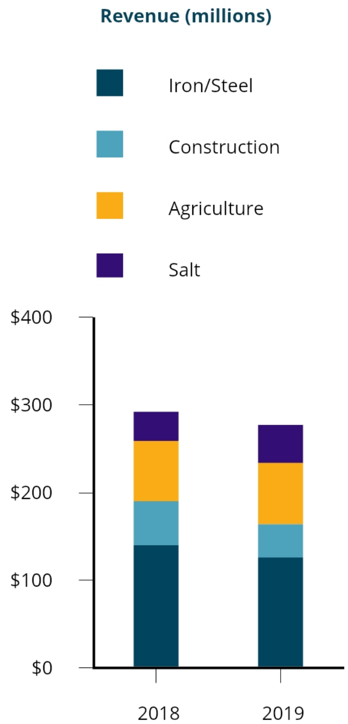
Operating expenses decreased 4.5% compared to 2018. The decrease reflects the reduction in capacity and the decrease in fuel expense as noted above. This was offset by increases in crew costs and vessel incidents resulting in repair costs not covered by insurance. Overall, insurance-related costs increased 31% compared to 2018. In addition, 2019 experienced an increase in lay-up expenses due to extensive dry-dockings on a number of vessels as the Company has invested in repairing and maintaining the legacy fleet of older vessels.

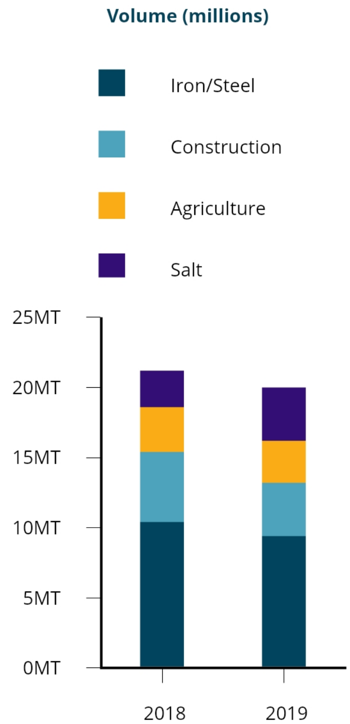
The increase in depreciation expense reflects the addition of the Algoma Conveyor at the beginning of the operating season and depreciation charges related to capitalized dry-dock costs on other ships.

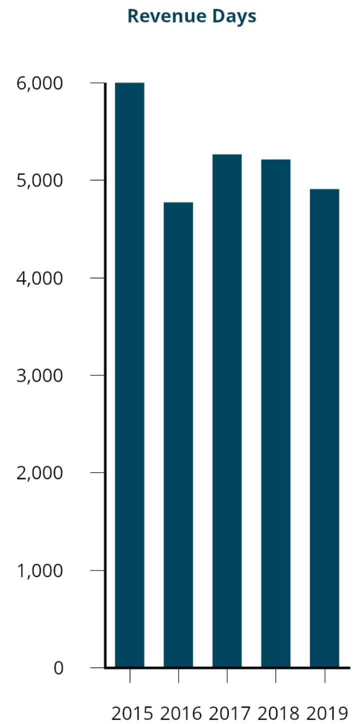
For the years ended December 31	**2019**	2018
Revenue	**$ 281,680**	$ 297,662
Operating expenses	**(212,844)**	(222,862)
Selling, general and administrative	**(11,289)**	(12,523)
Depreciation and amortization	**(24,112)**	(22,700)
Operating earnings	**33,435**	39,577
Gain on foreign currency forward contracts	**—**	1,209
Gain on cancellation of shipbuilding contracts	**—**	12,862
Income tax expense	**(9,238)**	(10,482)
Net earnings	**$ 24,197**	$ 43,166

EBITDA for Domestic Dry-Bulk for 2019 was $57,547, a decrease of 8% compared to 2018, reflecting the smaller fleet size, reduction in volumes and vessel out of service time. EBITDA is determined as follows:

For the years ended December 31	**2019**	2018
Net earnings	**$ 24,197**	$ 43,166
Adjustments to net earnings:		
Depreciation and amortization	**24,112**	22,700
Gain on foreign currency forward contracts	**—**	(1,209)
Gain on cancellation of shipbuilding contracts	**—**	(12,862)
Income tax expense	**9,238**	10,482
EBITDA	**$ 57,547**	$ 62,277







Overall volumes decreased 5.5% compared to 2018. The main cargo contributors were iron and steel and construction materials which experienced 10% and 24% drops in volumes, respectively. This was offset by a significant increase in the salt volumes, with a 44% increase in tonnage, and by higher freight rates.

Revenue days were down 6% compared to last year. The main contributors in the reduction was having one fewer vessel in operation and lost days due to higher incidents.

Fleet Renewal

As noted last year, the Company took delivery of the Algoma Conveyor late in 2018 and the vessel began operations at the start of the 2019 navigation season. The vessel is the third Seawaymax 740' self-unloader and the eighth vessel to join her Equinox Class sister ships since the fleet renewal program was launched in 2010.

The Company currently has a Equinox Class Seawaymax 740' bulker under construction at the Yangzijiang Shipyard in China. This bulker is expected to begin operations in the spring of 2021.

In addition to the bulker, a 650' Equinox Class self-unloader, the Algoma Intrepid, is currently under construction at a Croatian shipyard. Contractual delivery is scheduled for late 2020. The full price of the Algoma Intrepid is due upon delivery.

Product Tankers

The domestic product tanker fleet provides safe and reliable transportation of liquid petroleum products throughout the Great Lakes, St. Lawrence Waterway and Atlantic Canada regions. This business unit consists of eight double-hull product tankers.

Financial Results Overview

Revenues for product tankers increased by $35,641 in 2019 compared to the prior year. The increase was primarily driven by high customer demand met, in part, by the two new ships operating in the fleet and with chartered capacity. The first of the new ships, the Algonorth entered operations at the end of 2018 and the Algoterra joined the fleet in the second quarter of 2019. Despite an increase in internal capacity, the use of outside charters during the year was still required; however, as a result of the extra capacity, charter days were slightly less compared to 2018.

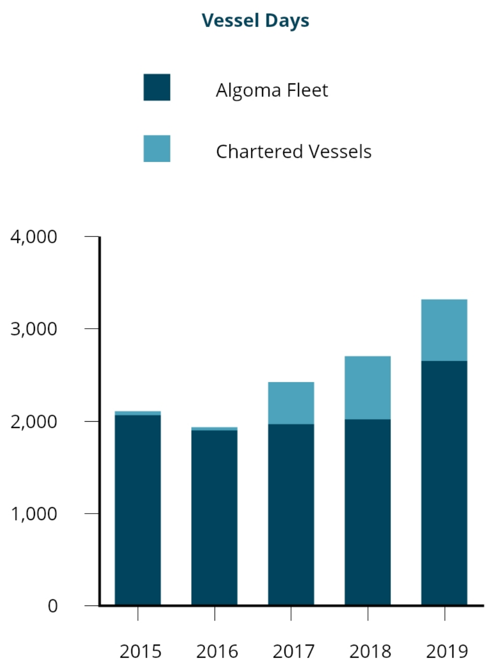
Operating expenses increased by $16,369 during 2019 due to the increased capacity; crew, supplies and insurance costs were all higher as a result. The increase was offset by lower lay-up spending as a result of fewer dry-dockings in 2019. Fiscal 2018 was impacted by lost days due to dry-dockings as a result of the timing of regulatory dry-docks and the age of certain vessels in the fleet.

The increase in depreciation and amortization during 2019 was a result of the addition of the Algonorth and Algoterra to operations. Additionally, increased amortization for the previous year dry-dockings impacted the 2019 depreciation expense.

For the years ended December 31	**2019**	2018
Revenue	**$ 141,912**	$ 106,271
Operating expenses	**(104,439)**	(88,070)
Selling, general and administrative	**(4,019)**	(2,257)
Depreciation and amortization	**(13,555)**	(9,867)
Operating earnings	**19,899**	6,077
Income tax expense	**(5,273)**	(1,475)
Net earnings	**$ 14,626**	$ 4,602

EBITDA for Product Tankers was $33,454, an increase of $17,510 compared to the prior year. The increase reflects the two new tanker acquisitions, less reliance on outside chartered vessels and high customer demand. EBITDA is determined as follows:

For the years ended December 31	**2019**	2018
Net earnings	**$ 14,626**	$ 4,602
Adjustments to net earnings:		
Depreciation and amortization	**13,555**	9,867
Income taxes	**5,273**	1,475
EBITDA	**$ 33,454**	$ 15,944



Overall customer demand was 23% higher in 2019 compared to 2018 due to refinery turn-arounds and higher volumes of petroleum products being moved through the system. Although there was a 2% decrease in outside charter days there was a 31% increase in revenue days as a result of the additional capacity in our owned fleet.

At the beginning of March, the Algoterra, a 2010-built product tanker was acquired and joined the Algoma fleet in operations in April. Both the Algonorth and the Algoterra have enabled the company to service the higher demand and enabled us to avoid even higher uses of outside charters in 2019.

Ocean Self-Unloaders

The Ocean Self-Unloader segment consists of eight ocean-going self-unloading vessels, a 50% interest in a ninth self-unloader and a 25% interest in a specialized ocean vessel. The eight self-unloaders are part of the world's largest pool of ocean-going self-unloaders, which at the end of 2019 totalled 18 vessels.

Financial Results Overview

Revenues in the Ocean Self-Unloader segment increased by $41,148 in 2019 compared to 2018. The segment continues to experience improving Pool performance with growing customer demand, higher volumes and improved freight rates. The three new vessels that were acquired and began operations in June resulted in a 38% increase in revenue days.

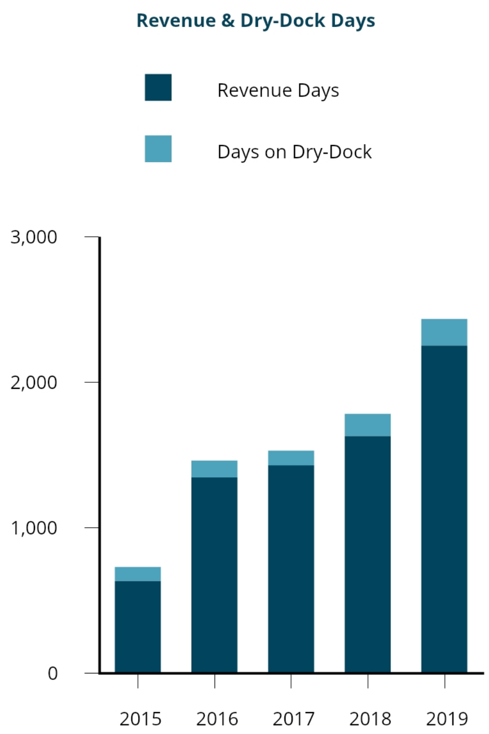
Operating expenses increased by $25,933 compared to the previous year due to a 46% rise in operating days as result of the additional capacity. Due to the larger fleet size, crew, supply and fuel costs were also higher compared to 2018. Additionally, as a result of the Algoma Integrity being on dry-dock from late in the first quarter until July, there was an increase in dry-dock expense in 2019.

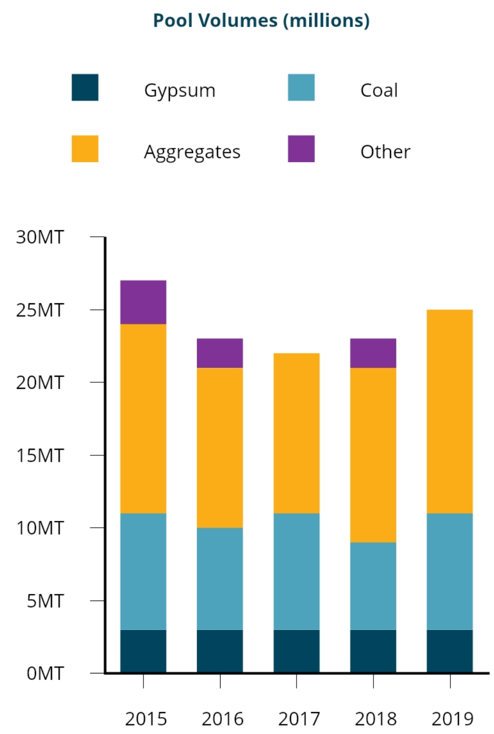
Depreciation and amortization increased by $9,263 in 2019 compared to 2018 due to the three new vessels being added part way through the year.

For the years ended December 31	**2019**	2018
Revenue	**$ 131,425**	$ 90,277
Operating expenses	**(82,959)**	(57,026)
General and administrative	**(1,136)**	(2,338)
Depreciation and amortization	**(28,657)**	(19,394)
Operating earnings	**18,673**	11,519
Net (loss) earnings from investments in joint ventures	**(777)**	717
Net earnings	**$ 17,896**	$ 12,236

EBITDA was $50,508, an increase of 52% compared to the prior year. EBITDA is determined as follows:

For the years ended December 31	**2019**	2018
Net earnings	**$ 17,896**	$ 12,236
Adjustments to net earnings:		
Depreciation and amortization	**28,657**	19,394
Joint Venture:		
Depreciation and amortization	**2,215**	1,855
Impairment provision	**428**	—
Interest expense	**625**	706
Foreign exchange (gain) loss	**696**	(1,210)
Income tax expense	**(9)**	264
EBITDA	**$ 50,508**	$ 33,245





The seven months of additional capacity accounted for almost all of the 38% increase in revenue days. As a result of the smooth transition of ownership, there were also minimal off-hire days experienced in 2019.

There was a 9% increase in Pool volumes primarily driven by higher volumes in coal and aggregates with a 22% and 17% increase, respectively, in 2019.

Global Short Sea Shipping

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

Financial Results Overview

Revenue decreased in the Global Short Sea Shipping segment by $21,454 or 8% in 2019 compared to 2018. The decrease was primarily due to a reduction in the size of the mini-bulker fleet offset by a larger cement carrier fleet compared to last year. Additionally, the handy-size fleet had a full year of operation compared to only half the year in 2018.

Operating expenses decreased by 7% in 2019 driven by the smaller mini-bulker fleet, partially offset by higher operating costs in the cement and handy-size fleets due to the larger fleet sizes. In 2019 the cement fleet operated an average of 18 vessels compared to an average of 14 vessels in 2018. In the handy size fleet an average of five vessels were in operation in 2019 compared to two in 2018.

Depreciation and amortization increased by $5,022 in 2019 as a result of annualized depreciation on one vessel added late in 2018 in the cement fleet and the addition of two vessels in both the cement and handy-size fleets. The increase was also impacted by dry-dockings in the mini-bulker fleet.

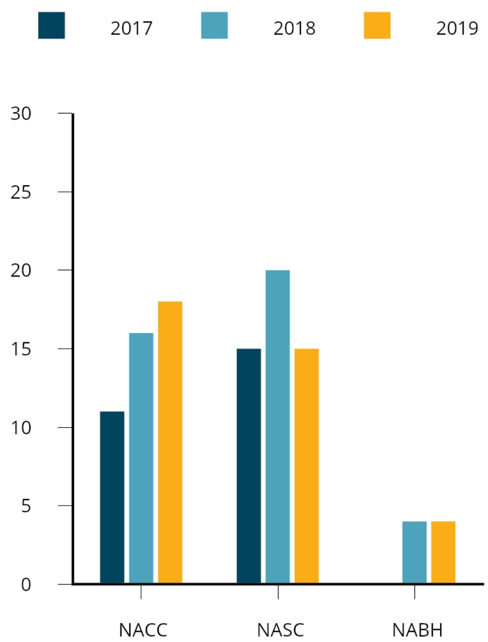
The segment recorded a gain of $8,832 on the sale of four mini-bulkers and two handy-size vessels during the year.

The Company has been monitoring the financial results of its investment in NASC over the course of the year and net earnings continue to be below expectations. The joint venture has experienced challenges maintaining the number of vessels it once had under its commercial management. During the fourth quarter of 2019, the Company completed a review of the events and circumstances to determine if the carrying amount of the investment was greater than the recoverable amount. The review took into account the sustained decline in commercially managed vessels and associated cargo volumes.

As a result of the review, the Company determined that the current carrying value of its investment in NASC was impaired and recognized an impairment loss of $15,542 in net earnings from investments in joint ventures. The impairment loss was calculated as the amount by which the carrying value exceeded the net recoverable amount. In the absence of a reliable measure of a market value of the Company's equity interest in the joint venture, the net recoverable value was based on fair value, less costs of disposal, of the underlying net assets of the investment.

For the years ended December 31	**2019**	2018
Revenue	**$ 255,559**	$ 277,013
Operating expenses	**(207,751)**	(223,209)
Selling, general and administrative	**(8,730)**	(7,897)
Depreciation and amortization	**(25,352)**	(20,330)
Operating earnings	**13,726**	25,577
Gain on sale of vessels	**8,832**	—
Interest expense	**(11,083)**	(8,435)
Foreign exchange loss	**(376)**	(262)
Other income	**—**	161
Earnings before undernoted	**11,099**	17,041
Income tax recovery (expense)	**110**	(530)
Net earnings of joint ventures	**2,324**	1,492
Net earnings attributable to non-controlling interest	**1,492**	(1,115)
Net earnings	**$ 15,025**	$ 16,888
Company share of net earnings above	**$ 7,513**	$ 8,444
Impairment of investment in joint ventures	**(15,542)**	—
Amortization of vessel purchase price allocation and intangibles	**(717)**	(638)
Company share included in net (loss) earnings of joint ventures	**$ (8,746)**	$ 7,806

Number of Owned Vessels at Year End



In response to increasing customer requirements, the NACC Capri began operations domestically in 2019 bringing the total cement carriers owned by NovaAlgoma operating on the Great Lakes - St. Lawrence Waterway to three.

Investment Properties

The Company owns a shopping centre and an apartment building located in Sault Ste. Marie, Ontario.

For the years ended December 31	**2019**	2018
Revenue	**$ 9,809**	$ 11,113
Operating expenses	**(6,956)**	(7,300)
Depreciation	**(2,725)**	(2,783)
Operating earnings	**128**	1,030
Income tax recovery (expense)	**72**	(355)
Net earnings	**$ 200**	$ 675

Corporate

The Corporate segment consists of revenue from management services provided 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.

For the years ended December 31	**2019**	2018
Revenue	**$ 3,082**	$ 2,878
Operating expenses	**(1,042)**	(873)
Selling, general and administrative	**(14,839)**	(12,975)
Depreciation	**(966)**	(970)
Operating loss	**(13,765)**	(11,940)
Foreign currency (loss) gain	**(886)**	2,213
Interest, net	**(18,693)**	(11,577)
Income tax recovery	**9,330**	3,762
Net loss	**$ (24,014)**	$ (17,542)

Consolidated

For the years ended December 31	2019	2018
Revenue	**$ 567,908**	$ 508,201
Operating expenses	**(408,240)**	(376,131)
Selling, general and administrative	**(31,283)**	(30,093)
Depreciation and amortization	**(70,015)**	(55,714)
Operating earnings	**58,370**	46,263
Impairment reversal	**—**	6,864
Interest expense	**(19,860)**	(25,499)
Interest income	**1,167**	13,752
Foreign currency (loss) gain	**(886)**	9,590
Income tax expense	**(5,109)**	(8,550)
Net (loss) earnings from investments in joint ventures	**(9,523)**	8,523
Net earnings	**$ 24,159**	$ 50,943

Interest Expense

Interest expense decreased by $5,639 compared to 2018 although interest expense on borrowings increased $1,076 higher as a result of higher average debt in 2019 compared to last year. Overall interest expense for 2018 included significant changes related to the cancellation of certain shipbuilding contracts.

For the years ended December 31	2019	2018
Interest expense on borrowings	**$ (18,838)**	$ (17,762)
Amortization of financing costs	**(1,099)**	(1,109)
Interest on employee future benefits, net	**(809)**	(319)
Interest capitalized on vessels under construction	**886**	6,570
Reversal of interest previously capitalized on shipbuilding contracts	**—**	(12,879)
	$ (19,860)	$ (25,499)

Foreign Currency (Loss) Gain

There was a foreign currency loss of $886 in 2019 compared to a significant gain of $9,590 in 2018. The swing is a result of a slight reduction in currency related gains on cash this year compared to the previous year and a significant foreign exchange gain in 2018 resulting from the cancellation of certain shipbuilding contracts.

For the years ended December 31	2019	2018
Gain on foreign denominated cash	**$ 889**	$ 1,959
Gain on return of capital from foreign subsidiary	**—**	254
Foreign exchange (loss) gain on contract cancellation receivable	**(1,775)**	6,168
Unrealized gain on foreign exchange forward contracts	**—**	1,209
	$ (886)	$ 9,590

Income Taxes

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 2019 and 2018 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.

For the years ended December 31	**2019**	2018
Combined federal and provincial statutory income tax rate	**26.5%**	26.5%
Net earnings before income tax and net earnings of joint ventures	**$ 38,791**	$ 50,970
Expected income tax expense	**$ (10,280)**	$ (13,507)
(Increase) decrease in expense resulting from:		
Effect of items that are not (deductible) taxable	**(418)**	2,440
Foreign tax rates different from Canadian statutory rate	**4,991**	3,189
Adjustments to prior period provision	**557**	(537)
Other	**41**	(135)
Actual tax expense	**$ (5,109)**	$ (8,550)

Cancellation of Shipbuilding Contracts in 2018

During 2018, the Company sent notice to a Croatian shipyard of its intention to cancel four shipbuilding contracts. 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 and cancelled all four contracts. In December 2018, the Company received a full refund, including interest, for one of the cancelled contracts and subsequent to the 2018 year end, refunds were received for the remaining three contracts.

The impact to the Statement of Earnings is as follows:

For the years ended December 31	**2019**	2018
Impairment reversal	**$ —**	$ 6,864
Increase income on instalments	**—**	12,709
Write-off of supervision and other direct costs	**—**	(1,217)
Write-off of capitalized interest relating to ship construction	**—**	(12,879)
Foreign exchange (loss) gain	**(1,775)**	6,168
(Loss) gain on cancellation of shipbuilding contract	**(1,775)**	11,645
Income tax expense	**—**	(1,431)
	$ (1,775)	$ 10,214

The net impact to the Balance Sheet is as follows:

For the years ended December 31	2018
Decrease to property, plant and equipment	$ (105,194)
Increase to other current receivables	$ 68,040

Normal Course Issuer Bid

On March 19, 2019, the Company renewed its normal course issuer bid with the intention to purchase, through the facilities of the TSX, up to 1,920,735 of its Common Shares representing approximately 5% of the 38,414,715 Common Shares which were issued and outstanding as at the close of business on March 7, 2019 (the "NCIB").

Subject to prescribed exceptions, the Company is allowed to purchase up to 1,000 Common Shares per day, representing approximately 25% of the average daily trading volume of 3,792 Common Shares per day during the six months ending March 7, 2019. The Company is able to buy back Common Shares anytime during the 12-month period beginning on March 19, 2019 and ending on March 18, 2020, 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 are conducted through the facilities of the TSX and other Canadian marketplaces/alternative trading systems.

The Company purchased a total of 597,072 Common Shares under its normal course issuer bids ("NCIB") during 2019 for an aggregate purchase price of $8.012. The current NCIB expires on March 18, 2020.

The Company intends to renew its normal course issuer bid upon receipt of the required approvals from regulatory authorities.

Contingencies

For information on contingencies, please refer to Note 27 of the consolidated financial statements for the years ending December 31, 2019 and 2018. There have been no significant changes in the items presented since December 31, 2019.

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 year ended December 31, 2019.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

Operating Activities

Net cash generated from operating activities in 2019 was $137,758 compared to cash generated of $83,349 in 2018. Significant contributors were the Product Tanker and Ocean Self-Unloader segments as well as a significant increase in net working capital.

Investing Activities

Net cash used in investing activities was primarily directed to the purchase of five vessels and investments in Global Short Sea Shipping, less the recovery of the final receivables relating to the 2018 contract cancellations.

Financing Activities

Net cash from financing activities relates to net proceeds on long-term debt used for capital purchases, less the payment of special dividends.

Net inflow (outflow) of cash related to the following activities:

For the years ended December 31		**2019**		2018
Net earnings	**$**	**24,159**	$	50,943
Operating activities	**$**	**137,758**	$	83,349
Investing activities	**$**	**(153,367)**	$	(46,683)
Financing activities	**$**	**11,700**	$	(81,426)

Capital Resources

The Company has cash on hand of $18,865 at December 31, 2019. Available credit facilities along with projected cash from operations for 2020 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. The Company's bank credit facility (the "Facility") expires June 21, 2021 and comprises a $100 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 under the terms of the Bank Facility and the Notes, including ones with respect to maintaining defined financial ratios and other conditions. As at December 31, 2019, the Company was in compliance with all of its covenants.

Labour Update

Employees and Unions

The normal complement of employees is approximately 1,600, the majority of whom are unionized. The status of the various union agreements are provided below.

Shipboard Managers

All Captains and Chief Engineers of the Company are non-unionized. Navigation and Engineering Officers are represented by six separate bargaining units of the Canadian Merchant Service Guild. Two of these agreements expire on July 31, 2021 and four other agreements expire on May 31, 2023.

Unlicensed Employees

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

The collective bargaining agreement with one bargaining unit of the SIU expires May 31, 2023. The second collective bargaining agreement with the SIU expires on July 31, 2024. The collective agreement with UNIFOR expires on March 31, 2023.

Algoma Ship Repair

The collective agreement between Algoma Ship Repair and its hourly paid workers, who are represented by the United Steelworkers, expires on May 1, 2022.

Three-Month Results Ending December 31, 2019 and 2018

The Domestic Dry-Bulk segment earnings decreased in the 2019 fourth quarter compared to the same period in 2018, which included a gain of $10,214 related to shipyard contract cancellations that year. Excluding this gain, earnings for 2019 decreased $3,592 compared to 2018. Although volumes were lower due to the reduction in the fleet size, this was more than offset by rate increases. The decrease in revenue for the quarter is entirely attributable to lower fuel prices. The decrease in segment earnings is otherwise a result of higher crew costs, repair costs due to incidents, and depreciation on the new vessel.

Results increased for both the Product Tanker and Ocean Self-Unloader segments in the 2019 fourth quarter due to added capacity within the fleets, two new product tankers and three new ocean self-unloaders, compared to last year. Additionally both segments are experiencing strong customer demand.

The decrease in earnings in the Global Short Sea Shipping segment in the 2019 fourth quarter compared to 2018 was driven by a $15,541 impairment provision in net earnings from the Company's investment in the NovaAlgoma Short Sea Carriers joint venture. Adjusting for this item the Global Short Sea segment earnings increased $2,026 driven by strong results in the cement carrier business.

For the years ended December 31	**2019**	2018
Revenues		
Domestic Dry-Bulk	**$ 85,137**	$ 89,390
Product Tankers	**38,728**	32,190
Ocean Self-Unloaders	**41,916**	24,014
	165,781	145,594
Investment properties	**2,504**	2,712
Corporate	**700**	1,237
	$ 168,985	$ 149,543
Operating earnings net of income tax		
Domestic Dry-Bulk	**$ 12,815**	$ 26,622
Product Tankers	**3,266**	458
Ocean Self-Unloaders	**6,778**	3,991
Global Short Sea Shipping	**(11,661)**	1,854
	$ 11,198	$ 32,925
Investment Properties	**(17)**	89
Corporate	**(7,385)**	(7,013)
Net earnings	**$ 3,796**	$ 26,001
Basic earnings per share	**$ 0.10**	$ 0.68
Diluted earnings per share	**$ 0.10**	$ 0.64

Critical Accounting Estimates

The Company's significant accounting policies are described in Note 4 to the consolidated financial statements. Some of these accounting policies require management to make estimates and assumptions about matters that are uncertain at the time the estimates and assumptions are made. Management believes that the estimates are reasonable; however, different estimates could potentially have a material impact on the Company's reported financial position or results of operations.

Employee Future Benefits

The Company provides pensions and post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligations and expense for the employee future benefits is dependent on the selection of certain assumptions used by the Company in calculating such amounts. Those assumptions are disclosed in Note 20 to the Company's consolidated financial statements, the most significant of which are the discount rate, the rate of increase in compensation, expected rates of return on plan assets, the rate of increase in the cost of health care and the estimated average remaining service lives of employees, some of which are defined by regulation. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses as disclosed in Note 20 to the consolidated financial statements. The significant accounting assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's reported employee future benefit obligations and future expense.

Property, Plant, and Equipment and Impairment

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

Change in Accounting Estimates

Employee Future Benefits

For 2019, the Company's assumed rate of compensation increases for purposes of calculating the current service cost that is included in the net benefit cost incurred, remained at 3.0% to 2020 and to 2.5% thereafter.

New Accounting Standards Applied

Leases

Effective January 1, 2019, the Company adopted *IFRS 16 - Leases* (IFRS 16), which supersedes *IAS 17 - Leases* (IAS 17) and its interpretive guidance.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Right-of-use assets and lease liabilities will be amortized and accreted with a different pattern of expense being recognized in the statement of earnings.

The Company applied this standard using a modified retrospective approach using the following practical expedients:

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- For contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4 - Determining Whether an Arrangement Contains a Lease

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate of 5.95% as of January 1, 2019.

The associated right-of-use asset was measured at an amount equal to the lease liability. There were no onerous lease contracts requiring an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- Right-of-use asset - increase by $429
- Lease liability - increase by $429

The Company's leasing activities

The Company leases property in the form of offices and warehouses. Rental contracts are typically for fixed periods from 5 years, but may have extension options. Where the Company is reasonably certain to extend the option, it is included in the term of the lease. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

The Company may from time to time enter into short term leases of vessels or tankers which are limited to a maximum of 12 months. Payments associated with short term leases are recognized on a straight-line basis as an expense in the interim condensed consolidated statement of earnings.

Prior to adoption of IFRS 16, all leases were classified as operating leases, which were charged to the consolidated statement of earnings on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognized in full on the consolidated balance sheet with a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period producing a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Lease liabilities include the net present value of fixed payments and any variable payments which are based on an index, discounted using the Company's incremental borrowing rate. Right-of-use assets are measured at the amount of the initial lease liability and adjusted for prepaid lease payments, initial direct costs and restoration costs, if applicable.

Some property leases contain variable payment terms for the Common Area Maintenance which is recorded directly to the consolidated statement of earnings.

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 December 31, 2019. 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 December 31, 2019.

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.

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 December 31, 2019.

Changes in Internal Controls over Financial Reporting

During the year ended December 31, 2019, 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.

Derivative Financial Instruments

The Company's exposure to foreign currency fluctuations is related to its unhedged cash balances and unhedged net investment in foreign subsidiaries. The Company has hedged part of its investment in the subsidiaries and joint ventures against its foreign denominated long-term debt. At December 31, 2019 and 2018, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $358,080 and $272,247 U.S. dollars, respectively. The amount used as a hedge at December 31, 2019 and 2018 was $125,000 and $75,000 U.S. dollars respectively.

The Company has significant commitments due for payment in U.S. dollars. For payments due in U.S. dollars, the Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2018 the Company had U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $14,000 and fair value gain of $1,571. As of December 31, 2019 the Company did not have any U.S. dollar denominated foreign exchange forward contracts outstanding.

Contractual Obligations

The table below provides aggregate information about the Company's contractual obligations as at December 31, 2019 that affect the Company's liquidity and capital resource needs.

	2020	2021	2022	2023	2024 and Beyond
Long-term debt including equity component	$ 80,076	$ 172,553	$ 150	$ 5,196	$ 80,184
Capital asset commitments	74,843	30,561	—	—	—
Interest payments on long-term debt	14,854	9,559	4,581	4,391	2,166
	$ 169,773	$ 212,673	$ 4,731	$ 9,587	$ 82,350

Risks and Uncertainties

The following section describes both general and specific risks that could affect the Company's financial performance. The risks described below are not the only risks facing the Company. Additional risks and uncertainties that are not currently known or that are currently considered immaterial may also materially and adversely affect the Company's business operations.

Shipboard Personnel

The long-term challenge of recruiting and retaining skilled crews in the marine industry continues to be an area of focus. The challenge of recruiting new employees into the marine industry, competition for skilled labour from other sectors, competitors, or other entities operating in the marine industry is a growing challenge. The limited number of cadet berths is also a factor that needs to be addressed by the marine industry as a whole. A lack of properly skilled shipboard employees could lead to service delays and interruptions as the ability of the Company to fully utilize its domestic vessels could be affected. The Company continues to work with industry groups, its unions and educators to develop and enhance training programs to ensure an adequate supply of labour is available to meet its future needs.

Competitive Markets

Marine transportation is competitive in both domestic and international markets. Marine transportation is subject to competition from other forms of transportation such as road and rail freight. Competition may decrease the profitability associated with any particular contract and may increase the cost of acquisitions. The Company strives to differentiate itself from the competition with superior customer service, having vessels suited to each customer's needs and maintaining a compliant, safe, efficient and reliable fleet.

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

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

Environmental

Environmental protection continues to be a dominant topic on the world legislative agenda and is a primary focus of the Company throughout its operations. Environmental issues such as aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases (GHGs) and marine protected areas continue to be scrutinized and regulated worldwide. A change in environmental legislation could have a significant impact on the Company's future operations and profitability.

The Company's fleets continue to monitor fuel sulphur levels in accordance with Emission Control Area (ECA) and Fleet Averaging requirements and remains in compliance with all requirements. The Company's highly efficient Equinox Class ships are equipped with closed-loop exhaust gas scrubbers designed to meet the stringent ECA SOx limits. Vessels equipped with scrubbers are able to meet emission standards while burning high sulphur fuels. The availability of high sulphur fuels may be impacted by future demand for this fuel or environmental regulations. The Company's other vessels use lower sulphur fuels to satisfy air emission rules, such as the upcoming 2020 global fuel sulphur cap, although the cost and availability of low sulphur fuels may present a risk. In addition there is no certainty the full cost of such fuels or cost related to converting to such fuels can be recovered from all customers, particularly in international markets.

Canada is a signatory to the IMO Ballast Water Convention. The Canadian government is currently finalizing amendments to its ballast water regulations to implement the international ballast water discharge standard for Canadian waters. These requirements, already in place in the United States, will require installation of ballast water treatment systems on the Company's vessels during future dry dockings generally no later than September 2024. There are presently no U.S. Coast Guard approved ballast water treatment systems with operating limitations suitable for the Company's vessels that operate in the Great Lakes; the current imposition of unachievable ballast water regulations for these vessels presents an economic and regulatory risk to the Company. Installation of treatment systems on the Company's other (non-Great Lakes) vessels will have an impact on operating costs.

Nature of the Shipping Industry

The cyclical nature of the Great Lakes dry-bulk shipping industry may lead to decreases in shipping rates, which may reduce Algoma's revenue and earnings. The shipping business, including the dry-bulk market, has been cyclical in varying degrees, experiencing fluctuations in charter rates, profitability and volumes shipped. Algoma anticipates that the future demand for the Company's vessels and freight revenues will be dependent upon continued demand for commodities, economic growth in the United States and Canada, seasonal and regional changes in demand, and changes to the capacity of the Great Lakes fleet which cannot be predicted. Adverse economic, political, social or other developments could decrease demand and growth in the shipping industry and thereby reduce revenue and earnings.

Fluctuations, and the demand for vessels, in general, have been influenced by, among other factors:

- global and regional economic conditions;
- developments in international and Great Lakes trade;
- changes in seaborne and other transportation patterns, such as port congestion and canal closures;
- weather, water levels and crop yields;
- political developments; and
- embargoes and strikes.

The Company's domestic dry-bulk vessels and product tankers operate primarily in the Great Lakes and the St. Lawrence River. Winter conditions during the December to March period and rising or changing water levels in ports in which the vessels load and unload have the effect of increasing or reducing operating days and cargo sizes, respectively, and this could affect the profitability of these vessels. Lower water levels can impact cargo sizes by reducing available draft while high water levels can limit access in certain waterways by restricting clearance above a ship.

Fees and Tolls

Certain critical aspects of the Great Lakes St. Lawrence water transportation system are managed by government and quasi-government agencies. These agencies typically charge fees or tolls for use of the system or for access to services that are required in order to use the system. Some of these agencies face the same shortage of qualified staff that is faced by the Company and in response, these entities have begun to compete more aggressively for staff. This is creating cost increases for companies in the industry both to retain qualified staff and in the form of high fees passed through by the agencies. The Company has attempted to mitigate the impact of these fees by hiring qualified staff; however, this may have the effect of increasing the Company's costs. The ability of the Company to recover these cost increases from customers is uncertain.

Costs of Incidents

Operating vessels that can weigh up to approximately 40,000 tonnes when fully loaded and which carry materials that may be harmful to the environment is inherently risky. The potential costs that could be incurred by the Company because of these risks include damages caused to property owned by others, the cost of environmental contamination including fines and clean up costs, costs associated with damage to our own assets, and the impact of injuries sustained by our employees or by others. The Company has in place a system designed to guide its employees in the management of all of these risks and is focused on a process of learning and continuous improvement after any incident. The Company also carries insurance designed to provide financial mitigation of costs incurred as the result of an incident; however, there is no guarantee that the insurance coverage will be sufficient to provide full reimbursement of all costs, nor is there any assurance that such insurance will continue to be available in the future at a reasonable cost.

Foreign Exchange

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

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from its customers. The Company believes that the credit risk for accounts receivable is limited due to the tight credit terms given to customers, minimal bad debts experience and a customer base that consists of a relatively few large industrial concerns in diverse industries.

Employee Future Benefits

Economic conditions may prevent the Company from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any increase in the regulatory funding requirements for the Company's defined benefit pension plans, although a use of resources, is not expected to have a material impact on its cash flows. Effective January 1, 2010, the Company closed its defined benefit plans to new members and adopted defined contribution plans for all new employees.

Judicial and Other Proceedings

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

Responsibility for Financial Statements

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

The financial statements were prepared by management in accordance with International Financial Reporting Standards and necessarily include some amounts that are based on estimates and judgements. Information used elsewhere in this annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss and that financial statements principally through its Audit Committee, which consists solely of outside directors. The Audit Committee meets periodically with management and the auditors to review results of audit examinations and financial reporting matters. The independent auditors appointed by the shareholders have full access to the Audit Committee, with and without management present.

The Audit Committee reviewed the financial statements in this report and recommended that they be approved by the Board of Directors.

Gregg A. Ruhl
President and Chief Executive Officer
February 27, 2020

Peter D. Winkley, CPA, CA
Chief Financial Officer
February 27, 2020

Deloitte.

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Independent Auditor's Report

To the Shareholders of Algoma Central Corporation

Opinion

We have audited the consolidated financial statements of Algoma Central Corporation (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Lawrenson.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 27, 2020

Consolidated Statement of Earnings

For the years ended December 31 (in thousands of dollars, except per share data)	Notes	2019	2018
Revenue	6	**$ 567,908**	$ 508,201
Operating expenses		**(408,240)**	(376,131)
Selling, general and administrative		**(31,283)**	(30,093)
Depreciation and amortization		**(70,015)**	(55,714)
Operating earnings		**58,370**	46,263
Impairment reversal	8	**—**	6,864
Interest expense	9	**(19,860)**	(25,499)
Interest income		**1,167**	13,752
Foreign currency (loss) gain	10	**(886)**	9,590
		38,791	50,970
Income tax expense	11	**(5,109)**	(8,550)
Net (loss) earnings from investments in joint ventures	7	**(9,523)**	8,523
Net earnings		**$ 24,159**	$ 50,943
Basic earnings per share	22	**$ 0.63**	$ 1.32
Diluted earnings per share	22	**$ 0.63**	$ 1.29

Consolidated Statement of Comprehensive Earnings

For the years ended December 31 (in thousands of dollars)	2019	2018
Net earnings	**$ 24,159**	$ 50,943
Other Comprehensive Earnings (Loss)		
Items that may be subsequently reclassified to net earnings:		
Unrealized (loss) gain on translation of financial statements of foreign operations	**(20,142)**	26,865
Unrealized gain (loss) on hedging instruments, net of income tax	**5,037**	(11,291)
Foreign exchange gain on purchase commitment hedge reserve, net of income tax, transferred to:		
Net earnings	**—**	(2,849)
Property, plant, and equipment	**—**	(63)
Items that will not be subsequently reclassified to net earnings:		
Employee future benefits actuarial earnings (loss), net of income tax	**763**	(7,475)
	(14,342)	5,187
Comprehensive Earnings	**$ 9,817**	$ 56,130

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet

As at December 31 (in thousands of dollars)	Notes	2019	2018
Assets			
Current			
Cash		**$ 18,865**	$ 25,539
Accounts receivable	12	**67,612**	72,714
Income taxes recoverable		**7,311**	18,826
Other current assets	13	**20,641**	82,908
		114,429	199,987
Property, plant, and equipment	14	**856,387**	726,251
Investments in joint ventures	7	**142,794**	153,289
Goodwill and intangible assets	15	**11,194**	15,653
Employee future benefits	20	**4,610**	2,452
Other assets	16	**17,963**	14,261
		$ 1,147,377	$ 1,111,893
Liabilities			
Current			
Accounts payable and accrued charges	17	**$ 63,441**	$ 56,310
Current portion of long-term debt	21	**80,076**	130
Income taxes payable		**3,975**	7,343
Other current liabilities	18	**9,353**	9,829
		156,845	73,612
Long-term debt	21	**254,777**	258,458
Employee future benefits	20	**24,856**	23,853
Deferred income taxes	11	**48,480**	48,430
Other long-term liabilities	19	**1,998**	4,985
		330,111	335,726
Commitments	26		
Shareholders' Equity			
Share capital	22	**8,115**	8,240
Contributed surplus		**1,184**	8,839
Convertible debentures		**2,309**	2,309
Accumulated other comprehensive loss	23	**(25,950)**	(10,845)
Retained earnings		**674,763**	694,012
		660,421	702,555
		$ 1,147,377	$ 1,111,893

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31 (in thousands of dollars)	Notes	2019	2018
Net Inflow (Outflow) of Cash Related to the Following Activities			
Operating			
Net earnings		**$ 24,159**	$ 50,943
Net loss (earnings) from investments in joint ventures	7	**9,523**	(8,523)
Items not affecting cash			
Depreciation and amortization		**70,015**	55,714
Gain on sale of assets		**(2,491)**	(2,519)
Impairment reversal	14	**—**	(6,864)
Other	24	**26,758**	13,185
Net change in non-cash operating working capital	24	**9,861**	(18,727)
Income taxes received, net of amounts paid		**2,888**	3,475
Employee future benefits paid		**(2,955)**	(3,335)
Net cash generated from operating activities		**137,758**	83,349
Investing			
Additions to property, plant, and equipment	24	**(209,146)**	(68,097)
Cancellation refunds received	8	**66,242**	48,796
Distributions received from joint ventures	7	**3,052**	26,545
Investment in joint ventures	7	**(8,985)**	(56,219)
Compensation payments to other pool members for retired vessels		**(5,382)**	(3,239)
Loan repayment from joint ventures		**3,260**	—
Progress payments for shipbuilding contracts		**(6,618)**	—
Interest received		**1,242**	270
Proceeds on sale of property, plant, and equipment		**2,968**	5,261
Net cash used in investing activities		**(153,367)**	(46,683)
Financing			
Interest paid		**(18,578)**	(17,769)
Proceeds of long-term debt		**163,907**	98,090
Repayments on long-term debt		**(82,225)**	(145,208)
Repurchase of common shares	22	**(8,023)**	(1,892)
Dividends paid		**(43,381)**	(14,647)
Net cash generated from (used in) financing activities		**11,700**	(81,426)
Net change in cash		**(3,909)**	(44,760)
Effects of exchange rate changes on cash held in foreign currencies		**(2,765)**	1,439
Cash, beginning of year		**25,539**	68,860
Cash, end of year		**$ 18,865**	$ 25,539

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation (the “Company”) is incorporated in Canada and is listed on the Toronto Stock Exchange. The address of the Company's registered office is 63 Church St, Suite 600, St. Catharines, Ontario, Canada. The consolidated financial statements of the Company for the twelve months ended December 31, 2019 and 2018 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 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 interests in ocean-going self-unloading vessels. 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 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 Company has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies have been applied consistently within the consolidated financial statements.

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

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 27, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The following are the principal accounting policies of the Company:

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

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

Interests in Joint Arrangements

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

The Company has assessed its interests in joint arrangements in order to classify them as either joint operations or joint ventures. When making the assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. The Company has concluded that it has an interest in a joint operation through its participation in an ocean-going self-unloader Pool, which is accounted for by consolidating the Company's share of the assets, liabilities, revenues and expenses of the joint operation. The Company's interests in joint arrangements are the joint ventures and it has accounted for these using the equity method.

Materials and Supplies

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

Property, Plant, and Equipment

Vessels

Vessels include dry-bulk carriers and product tankers. Vessels are measured at cost less accumulated depreciation and accumulated impairments. Cost includes expenditures that are directly attributable to the acquisition up to the time the asset is ready for use and include installation costs, mobilization costs to the operating location, and borrowing costs on qualifying assets. All major components of the vessels, except for the dry-docking costs (see below), are depreciated on a straight-line basis to the estimated residual value over their useful lives, which the Company initially estimates to be 25 to 30 years.

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

Dry-docking

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

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

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

Investment Properties

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

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

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

Impairment of Long-Lived Assets

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

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

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

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

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

Goodwill

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

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

Intangible Assets

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

Operating Segments

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

Revenue Recognition

The Company earns revenues from marine operations through contracts of affreightment, time charters, and pool revenue. In a contract of affreightment, the Company provides cargo transportation services for a base freight rate and variable consideration on a voyage basis. Time charter contracts give a customer access to a vessel during the contract term to ship their own cargos in exchange for a fixed daily hire fee, with adjustments. Pool revenue is earned through the Company's participation in the ocean self-unloader pooling arrangement. Revenues from marine operations are recognized pro-rata over the term of a voyage and are measured at the fair value of consideration received or receivable. Other revenues from marine operations include vessel management fees, which are based on either a fixed monthly charge or a percentage of revenues and are accrued on a monthly basis.

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

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

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:

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

For 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.

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 needs 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 probably 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 the Company's pooling agreements the difference between these amounts is typically the fuel and voyage costs incurred to fulfill the contract obligation.

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.

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 of 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.

Foreign Currency

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

Transactions in currencies other than the Canadian dollar are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

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

The assets and liabilities of the Company's foreign operations, whose functional currency is not the Canadian dollar, are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Earnings and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive earnings and accumulated in equity.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction, or production of assets that take a substantial period of time to prepare for their intended use are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in earnings in the period in which they are incurred.

Provisions

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

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

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

Employee Future Benefits

The Company maintains defined benefit pension plans, defined contribution pension plans and other, unfunded, post-employment benefits including certain retirement obligations, life insurance and health care.

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

The cost of defined benefit and defined contribution pensions and other post-retirement benefits that relate to employees' current service is charged to earnings. The cost for the defined benefit plans is computed on an actuarial basis using the projected unit credit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected future health care costs.

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

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

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

Asset Ceiling under IAS 19 as Clarified by IFRIC 14

The Company has adopted Ruling 14 of the International Financial Reporting Interpretations ("IFRIC 14") which clarifies how the asset ceiling defined under IAS 19 should be applied, particularly how it interacts with minimum funding rules. Under the revised IAS19, any variation in the asset ceiling will be recognized in other comprehensive income (as opposed to profit and loss). The impact of the asset limit on the funded plans has been applied based on management's interpretation of IAS19, as clarified by IFRIC 14. This interpretation is summarized as follows:

- The asset limit is not applicable for the unfunded plans;
- Each of the funded plans has been considered separately in determining the asset limit;
- For each of the registered plans, the Company assumed that it does not have an unconditional right to a refund of surplus;
- The Company may take defined benefit funding contribution holidays based on past practice and/or plan rules;
- The minimum funding requirement has been determined based on the funding requirements of the most recently filed actuarial valuation report prepared for funding purposes.

It has been assumed that no economic benefit is available from a reduction in future contributions if the plan is underfunded on either a going concern basis or solvency basis and is not in a position to take a contribution holiday at the measurement date.

Share-based Compensation

The Company grants share options to certain employees as compensation for services provided. The Company uses a Black-Scholes valuation option pricing model to estimate fair value for all share option compensation awards. The cost of the share options is based on the fair value estimated at the grant date and is recognized as compensation expense and contributed surplus over the service period required for employees to become fully entitled to the awards. This period is generally equal to the vesting period in addition to a period prior to the grant date. For the Company's share options, this period is generally equal to five years. When options are exercised, the amount initially recognized in the contributed surplus balance is reduced, with a corresponding increase in common shares.

The Company has various other share-based compensation plans where certain employees are awarded share units equivalent to the Company's common shares as compensation for services provided. The obligation related to share units is included in other liabilities. Compensation expense is recognized based on the fair value of the share units at the grant date, adjusted for changes in fair value between the grant date and the vesting date over the service period required for employees to become fully entitled to the awards. For the Company's share units, this vesting period is generally equal to three years.

Income Taxes

Income tax expense represents the sum of the current and deferred tax.

Current tax

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

Deferred tax

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

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

Convertible Debentures

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

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

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

Financial Instruments

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

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

The Company is required to classify all financial assets as either fair value through profit or loss, fair value through other comprehensive income, or amortized cost based on the Company's business model and the nature of the associated cash flows. Financial liabilities are required to be classified as either fair value through profit or loss or amortized cost using the effective interest method.

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

Financial assets

All financial assets, excluding derivative assets, are measured at amortized cost, less any impairment. Derivative assets are measured at fair value through profit and loss.

Financial liabilities

All financial liabilities, excluding derivative liabilities, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Derivative liabilities are measured at fair value through profit and loss.

Impairment of financial assets

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

Transaction costs

Transaction costs related to financial assets and liabilities measured at fair value through profit and loss are recorded directly to net earnings and are included in financial expense. Transaction costs related to held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method.

Derivative Financial Instruments

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

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

Embedded derivatives

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

Hedges

The Company has elected to apply IAS 39 hedge accounting to its net investment in foreign subsidiaries with foreign denominated debt and its purchase commitments for shipbuilding contracts with foreign denominated cash and forward currency contracts.

At inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Furthermore, at inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting the changes in cash flows of the hedged item attributable to the hedged risk.

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

Comprehensive Earnings

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

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.

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

Earnings Per Share

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

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

Related Party Transactions

The Company's related parties include any person or entity having control, joint control, or significant influence over the entity as well as any entities over which the Company has control, joint control, or significant influence. Transactions with related parties are valued on an arm's length basis.

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Recoverability of Assets and Useful Lives

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

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

1. At the self-unloader and gearless bulker fleet levels for the domestic dry-bulk segment.
2. At the fleet level for the product tanker segment, excluding the bunkering vessel.
3. The bunkering vessel.
4. At the fleet level for the ocean shipping segment.
5. Each individual investment in joint ventures.
6. Each individual investment property.
7. Corporate assets.

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

The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the property, plant, and equipment is complex and requires the Company to make various estimates including future freight rates, volumes, costs and discount rates. The carrying values of the Company’s property, plant, and equipment may not represent their fair market value at any point in time as market prices of second-hand vessels to a certain degree tend to fluctuate with changes in charter rates and the cost of new vessels; however, if the estimated future cash flow or related assumptions about the future experience change, an impairment of property, plant, and equipment may be indicated.

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

Judgement is required in determining the useful lives and residual values of long-lived assets. Depreciation on long-lived assets is based on cost less estimated residual value. Residual value for vessels is estimated as the lightweight tonnage of each vessel multiplied by the scrap value per tonne less any costs expected to be incurred to prepare the vessel for scrapping. The useful lives and residual value of the vessels are reviewed at least each financial year-end.

Provisions

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

Fair Value of Purchase Price Allocation

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

Taxation

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

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

Employee Future Benefits

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

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

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

APPLIED

Leases

Effective January 1, 2019, the Company adopted *IFRS 16 - Leases* (IFRS 16), which supersedes *IAS 17 - Leases* (IAS 17) and its interpretive guidance.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Right-of-use assets and lease liabilities will be amortized and accreted with a different pattern of expense being recognized in the statement of earnings.

The Company applied this standard using a modified retrospective approach using the following practical expedients:

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- For contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4 - Determining Whether an Arrangement Contains a Lease

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate of 5.95% as of January 1, 2019.

The associated right-of-use asset was measured at an amount equal to the lease liability. There were no onerous lease contracts requiring an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- Right-of-use asset - increase by $429
- Lease liability - increase by $429

The Company's leasing activities

The Company leases property in the form of offices and warehouses. Rental contracts are typically for fixed periods from 5 years, but may have extension options. Where the Company is reasonably certain to extend the option, it is included in the term of the lease. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

The Company may from time to time enter into short term leases of vessels or tankers which are limited to a maximum of 12 months. Payments associated with short term leases are recognized on a straight-line basis as an expense in the interim condensed consolidated statement of earnings, in line with the practical expedient in the standard.

Prior to adoption of IFRS 16, all leases were classified as operating leases, which were charged to the consolidated statement of earnings on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognized in full on the consolidated balance sheet with a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period producing a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Lease liabilities include the net present value of fixed payments and any variable payments which are based on an index, discounted using the Company's incremental borrowing rate. Right-of-use assets are measured at the amount of the initial lease liability and adjusted for prepaid lease payments, initial direct costs and restoration costs, if applicable.

Some property leases contain variable payment terms for the Common Area Maintenance which is recorded directly to the consolidated statement of earnings.

The Company reports its right-of-use asset and lease liability as part of other assets and liabilities on the consolidated balance sheet. The tables below show continuity schedules of the right-of-use asset and lease liability:

(in thousands of dollars)		2019
Right-of-use asset at January 1	$	429
Additions		24
Depreciation		(76)
Effect of foreign currency exchange differences		(17)
Right-of-use asset at December 31	**$**	**360**

(in thousands of dollars)		2019
Lease liability at January 1	$	429
Additions		24
Interest accretion		24
Payments		(84)
Effect of foreign currency exchange differences		(17)
Lease liability at December 31	**$**	**376**

Depreciation expense for the right-of-use assets is recognized within depreciation and amortization expenses while interest expense for the lease liabilities is recognized within interest expense in the consolidated statement of earnings. For the twelve months ended December 31, 2019, these amounts correspond to the depreciation of $76 and the interest accretion of $24 reported in the tables above.

Shown below is a table detailing the components of all cash payments relating to leases following the adoption of IFRS 16:

For the year ended December 31 (in thousands of dollars)		2019
Payments - short term leases	$	32,928
Payments per IFRS 16		84
Non-lease components per IFRS 16		67
Total cash payments	**$**	**33,079**

Shown below is a maturity analysis of the lease liabilities:

As at December 31 (in thousands of dollars)		2019
Within 1 year	$	59
Within 1 to 5 years		170
Over 5 years		147
Total lease liabilities	**$**	**376**

6. REVENUE

Disaggregated revenue by segment is as follows:

For the year ended December 31	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Investment Properties	Corporate	Total
(in thousand of dollars)						
2019						
Contract of Affreightment	$ 266,828	$ —	$ —	$ —	$ —	$ 266,828
Time Charter	13,951	141,909	—	—	—	155,860
Pool Revenue Share	—	—	131,425	—	—	131,425
Other	901	3	—	9,809	3,082	13,795
	$ 281,680	**$ 141,912**	**$ 131,425**	**$ 9,809**	**$ 3,082**	**$ 567,908**
2018						
Contract of Affreightment	$ 282,935	$ 2,084	$ —	$ —	$ —	$ 285,019
Time Charter	12,498	104,187	—	—	—	116,685
Pool Revenue Share	—	—	90,277	—	—	90,277
Other	2,229	—	—	11,113	2,878	16,220
	$ 297,662	$ 106,271	$ 90,277	$ 11,113	$ 2,878	$ 508,201

The Company's contract assets and liabilities are as follows:

As at December 31 (in thousands of dollars)	2019	2018
Contract assets		
Unbilled revenue	**$ 8,525**	$ 4,475

As at December 31 (in thousands of dollars)	2019	2018
Contract liabilities		
Deferred revenue	**$ 1,712**	$ 1,045

7. JOINT VENTURES

The Company has a 50% interest in Marbulk Canada Inc. ("Marbulk"), which owns and operates ocean-going vessels, a 50% interest in NovaAlgoma Cement Carriers Limited ("NACC"), which owns and operates pneumatic cement carriers to support infrastructure projects worldwide, a 50% interest in NovaAlgoma Short-Sea Holdings Ltd. ("NASH"), which owns and manages a fleet of short sea mini-bulkers operating in global markets, and a 50% interest in NovaAlgoma Bulk Holdings Ltd. ("NABH"), which owns and operates a small fleet of handy-size mini-bulkers. In the tables below, Marbulk results are presented in "Ocean Self-Unloaders" and all NovaAlgoma joint ventures are presented in "Global Short Sea Shipping".

Operating results of the Company's joint ventures are as follows:

For the years ended December 31 (in thousands of dollars)	2019		2018	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Revenue	**$ 9,975**	**$ 255,559**	$ 10,731	$ 277,013
Operating expenses	**(5,207)**	**(207,751)**	(4,744)	(223,209)
Gain on sale of vessels	**—**	**8,832**	—	—
General and administrative	**(602)**	**(8,730)**	(627)	(7,897)
Depreciation and amortization	**(4,429)**	**(25,352)**	(3,710)	(20,330)
Impairment provision	**(856)**	**—**	—	—
Interest expense	**(1,250)**	**(11,083)**	(1,411)	(8,435)
Foreign exchange (loss) gain	**(1,391)**	**(376)**	2,420	(262)
Compensation for pool vessel retirement	**2,989**	**—**	—	—
Other (expenses) income	**(799)**	**—**	(698)	161
Earnings before undernoted	**(1,570)**	**11,099**	1,961	17,041
Net earnings of joint ventures	**—**	**2,324**	—	1,492
Net earnings attributable to non-controlling interest	**—**	**1,492**	—	(1,115)
Income tax (expense) recovery	**17**	**110**	(528)	(530)
Net earnings	**$ (1,553)**	**$ 15,025**	$ 1,433	$ 16,888
Company share of net earnings	**$ (777)**	**$ 7,513**	$ 717	$ 8,444
Impairment of investment in joint ventures	**—**	**(15,542)**	—	—
Amortization of vessel purchase price allocation and intangibles	**—**	**(717)**	—	(638)
Company share included in net earnings from investments in joint ventures	**$ (777)**	**$ (8,746)**	$ 717	$ 7,806

The Company's total share of net earnings from the investments in jointly controlled operations by reportable operating segment are as follows:

For the years ended December 31 (in thousands of dollars)	2019	2018
Ocean Self-Unloaders	**$ (777)**	$ 717
Global Short Sea Shipping	**(8,746)**	7,806
	$ (9,523)	$ 8,523

Impairment provision

The Company has been monitoring the financial results of its investment in NASH over the course of the year and net earnings continue to be below expectations. The joint venture has experienced challenges maintaining the cargo volumes it once had under its commercial management. During the fourth quarter of 2019, the Company completed a review of the events and circumstances to determine if the carrying amount of the investment was greater than the recoverable amount. The review took into account the sustained decline in cargo volumes for commercially managed vessels.

As a result of the review, the Company determined that the carrying value of its investment in NASH was impaired and recognized an impairment loss of $15,542 in net earnings from investments in joint ventures. The impairment loss was calculated as the amount by which the carrying value exceeded the net recoverable amount. The net recoverable value was based on fair value, less costs of disposal, of the underlying net assets of the investment. The Company used Level 2 inputs, including market valuations from leading independent and internationally recognized shipbrokers, in determining the fair value for the majority of the net assets.

The assets and liabilities of the joint ventures by segment are as follows:

As at December 31 (in thousands of dollars)	**2019**		2018	
	Ocean Self-Unloaders	**Global Short Sea Shipping**	Ocean Self-Unloaders	Global Short Sea Shipping
Cash	**$ 4,670**	**$ 9,130**	$ 6,472	$ 18,171
Other current assets	**628**	**50,350**	1,518	53,524
Income taxes recoverable	**49**	**41**	52	25
Property, plant, and equipment	**27,177**	**430,180**	32,666	439,741
Investment in joint ventures	**—**	**19,600**	—	17,974
Intangible assets	**—**	**72**	624	61
Other assets	**—**	**12,367**	—	18,046
Current liabilities	**(1,543)**	**(59,283)**	(2,410)	(57,851)
Due to owners	**(23,235)**	**—**	(30,588)	—
Long-term debt	**—**	**(185,615)**	—	(226,061)
Other long-term liabilities	**(244)**	**(11,903)**	—	(11,141)
Deferred income taxes	**—**	**(493)**	—	(598)
Non-controlling interest	**—**	**(672)**	—	(2,345)
Net assets of jointly controlled operations	**$ 7,502**	**$ 263,774**	$ 8,334	$ 249,546
Company share of net assets	**$ 3,751**	**$ 131,887**	$ 4,167	$ 124,773
Goodwill and other purchase price adjustments	**—**	**7,156**	—	24,349
Company share of joint venture	**$ 3,751**	**$ 139,043**	$ 4,167	$ 149,122

The Company's net investment in the jointly controlled operations by segment are as follows:

As at December 31 (in thousands of dollars)	**2019**	2018
Ocean Self-Unloaders	**$ 3,751**	$ 4,167
Global Short Sea Shipping	**139,043**	149,122
	$ 142,794	$ 153,289

The Company's cash flows from joint ventures by segment are as follows:

For the years ended December 31 (in thousands of dollars)	**2019**		2018	
	Distributions received	**Investment in joint ventures**	Distributions received	Investment in joint ventures
Ocean Self-Unloaders	**$ —**	**$ —**	$ 2,512	$ (5)
Global Short Sea Shipping	**3,052**	**(8,985)**	24,033	(56,214)
	$ 3,052	**$ (8,985)**	$ 26,545	$ (56,219)

The Company has related party relationships with its joint ventures with respect to management services, technical management services, vessel operations, and a loan receivable. The Company also guarantees loans of the joint ventures. Amounts relating to transactions with joint ventures are as follows:

For the years ended December 31 (in thousands of dollars)	**2019**	2018
Accounts receivable	**$ 5,515**	$ 6,408
Loan and interest receivable	**11,618**	14,953
Accounts payable and accruals	**—**	450
Revenue	**2,013**	4,814
Operating expenses	**—**	2,496
Selling, general and administrative	**—**	312
Loans guaranteed by the Company	**30,941**	49,362

8. CANCELLATION OF SHIPBUILDING CONTRACTS

In 2018, the Company sent Notices of Rescission to Uljanik d.d to cancel shipbuilding contracts for the construction of four Equinox self-unloaders. All construction instalments made by the Company were requested to be refunded with interest.

In December 2018, the Company received the refund for one contract cancellation in the amount of $48,796. A contract cancellation receivable was outstanding at December 31, 2018 for the remaining three construction contracts. In January 2019, the Company was refunded $66,242, representing all amounts owing from the shipyard.

At the time the Notices of Rescission were sent, the Company had capitalized $112,062 of costs and recognized an impairment loss of $6,864 relating to the assets under construction in plant, property, and equipment.

The cancellation of the shipbuilding contracts impacted the following components of the comparative financial statements the prior year:

For the year ended December 31 (in thousands of dollars)	2019	2018
Impairment reversal (Note 14)	$ —	$ 6,864
Interest income on instalments	—	12,709
Write-off of supervision and other direct costs	—	(1,217)
Write-off of capitalized interest relating to ship construction (Note 9)	—	(12,879)
Foreign exchange gain (Note 10)	(1,775)	6,168
Gain on cancellation of shipbuilding contract	(1,775)	11,645
Income tax expense	235	(1,431)
	$ (1,540)	$ 10,214

9. INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31 (in thousands of dollars)	2019	2018
Interest expense on borrowings	$ (18,838)	$ (17,762)
Amortization of financing costs	(1,099)	(1,109)
Interest on employee future benefits, net	(809)	(319)
Interest capitalized on vessels under construction	886	6,570
Reversal of interest previously capitalized on cancelled shipbuilding contracts	—	(12,879)
	$ (19,860)	$ (25,499)

10. FOREIGN CURRENCY (LOSS) GAIN

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

For the years ended December 31 (in thousands of dollars)	2019	2018
Gain on foreign denominated cash and debt	$ 889	$ 1,959
Foreign exchange (loss) gain on contract cancellation receivable	(1,775)	6,168
Gain on return of capital from foreign subsidiary	—	254
Unrealized gain on foreign exchange forward contracts	—	1,209
	$ (886)	$ 9,590

11. INCOME TAXES

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

For the years ended December 31 (in thousands of dollars)	2019	2018
Current tax (expense) recovery	$ (5,452)	$ 1,554
Deferred tax recovery (expense)	343	(10,104)
	$ (5,109)	$ (8,550)

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

For the years ended December 31 (in thousands of dollars)	2019	2018
Combined federal and provincial statutory income tax rate	**26.5%**	26.5%
Net earnings before income tax and earnings from investments in joint ventures	**$ 38,791**	$ 50,970
Expected income tax expense	**$ (10,280)**	$ (13,507)
(Increase) decrease in expense resulting from:		
Effect of items that are not (deductible) taxable	**(418)**	2,440
Foreign tax rates different from Canadian statutory rate	**4,991**	3,189
Adjustments to prior period provision	**557**	(537)
Other	**41**	(135)
	$ (5,109)	$ (8,550)

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

For the years ended December 31 (in thousands of dollars)	2019	2018
Unrealized gains on hedging instruments	**$ 195**	$ 2,692
Actuarial gains (losses) on employee future benefits	**275**	(2,702)
	$ 470	$ (10)

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

As at December 31, 2019 (in thousands of dollars)	Opening balance	Recognized in equity	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax liabilities (assets)					
Property, plant, and equipment	$ 51,449	$ —	$ 7,699	$ —	$ 59,148
Employee future benefits	(5,594)	—	(31)	275	(5,350)
Foreign exchange differences	286	—	(295)	195	186
Losses for tax purposes	—	—	(5,886)	—	(5,886)
Convertible debentures	729	—	(115)	—	614
Tax allowances, provisions and other	1,560	(77)	(1,715)	—	(232)
	$ 48,430	**$ (77)**	**$ (343)**	**$ 470**	**$ 48,480**

As at December 31, 2018 (in thousands of dollars)	Opening balance	Transferred from Discontinued Operations	Recognized in earnings	Recognized in other comprehensive earnings	Closing balance
Deferred tax liabilities (assets)					
Property, plant, and equipment	$ 42,920	$ —	$ 8,529	$ —	$ 51,449
Employee future benefits	(2,966)	—	74	(2,702)	$ (5,594)
Foreign exchange differences	(3,594)	—	1,188	2,692	$ 286
Convertible debentures	837	—	(108)	—	$ 729
Tax allowances, provisions and other	1,441	(302)	421	—	$ 1,560
	$ 38,638	$ (302)	$ 10,104	$ (10)	$ 48,430

12. ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

As at December 31 (in thousands of dollars)	2019	2018
Due from customers	**$ 50,157**	$ 60,077
Contract assets (Note 6)	**8,525**	4,475
Government related	**4,345**	5,246
Other	**4,585**	2,916
	$ 67,612	$ 72,714

13. OTHER CURRENT ASSETS

The components of other current assets are as follows:

As at December 31 (in thousands of dollars)	2019	2018
Materials and supplies	$ **10,583**	$ 8,187
Prepaid expenses	**9,415**	4,401
Loan interest receivable	**634**	709
Right-of-use assets (Note 5)	**9**	—
Derivative asset	**—**	1,571
Contract cancellation receivable	**—**	68,040
	$ **20,641**	$ 82,908

14. PROPERTY, PLANT, AND EQUIPMENT

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

Cost (in thousands of dollars)	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Investment Properties	Total
Balance at January 1, 2018	$ 8,113	$ 826,167	$ 193,558	$ 236,688	$ 57,890	$ 1,322,416
Transfer between segments	9,338	(9,338)	—	—	—	—
Additions	265	43,673	26,995	7,259	289	78,481
Disposals	—	(123,775)	—	—	—	(123,775)
Fully depreciated assets no longer in use and other	—	(1,247)	(2,956)	(4,548)	(346)	(9,097)
Cancellation of shipbuilding contract (Note 8)	—	(112,062)	—	—	—	(112,062)
Adjustment to presentation of previously recognized impairment	—	3,966	—	—	—	3,966
Reversal of impairment (Note 8)	—	6,864	—	—	—	6,864
Effect of foreign currency exchange differences	—	—	—	21,308	—	21,308
Balance at December 31, 2018	$ 17,716	$ 634,248	$ 217,597	$ 260,707	$ 57,833	$ 1,188,101
Additions	368	40,031	24,225	140,995	329	205,948
Disposals	—	(72,340)	—	—	—	(72,340)
Fully depreciated assets no longer in use	—	(4,377)	(533)	(3,786)	(1,950)	(10,646)
Transfer between segments	361	—	—	—	(361)	—
Effect of foreign currency exchange differences and other adjustments	(19)	—	—	(15,225)	—	(15,244)
Balance at December 31, 2019	**$ 18,426**	**$ 597,562**	**$ 241,289**	**$ 382,691**	**$ 55,851**	**$ 1,295,819**

Accumulated depreciation (in thousands of dollars)	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Investment Properties	Total
Balance at January 1, 2018	$ 3,359	$ 323,131	$ 100,601	$ 67,590	$ 35,931	$ 530,612
Transfer between segments	6,525	(6,525)	—	—	—	—
Depreciation expense	972	22,692	9,867	16,018	2,783	52,332
Disposals	—	(122,786)	—	—	—	(122,786)
Fully depreciated assets no longer in use	—	(1,247)	(2,956)	(4,548)	(346)	(9,097)
Adjustment to presentation of previously recognized impairment	—	3,966	—	—	—	3,966
Effect of foreign currency exchange differences	—	—	—	6,823	—	6,823
Balance at December 31, 2018	$ 10,856	$ 219,231	$ 107,512	$ 85,883	$ 38,368	$ 461,850
Depreciation expense	904	24,098	13,555	23,534	2,725	64,816
Disposals	—	(71,935)	—	—	—	(71,935)
Fully depreciated assets no longer in use	—	(4,377)	(533)	(3,786)	(1,950)	(10,646)
Effect of foreign currency exchange differences and other adjustments	(2)	—	—	(4,651)	—	(4,653)
Balance at December 31, 2019	**$ 11,758**	**$ 167,017**	**$ 120,534**	**$ 100,980**	**$ 39,143**	**$ 439,432**

Net Book Value (in thousands of dollars)	Corporate	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Investment Properties	Total
December 31, 2019						
Cost	$ 18,426	$ 597,562	$ 241,289	$ 382,691	$ 55,851	$ 1,295,819
Accumulated depreciation	11,758	167,017	120,534	100,980	39,143	439,432
	$ 6,668	**$ 430,545**	**$ 120,755**	**$ 281,711**	**$ 16,708**	**$ 856,387**
December 31, 2018						
Cost	$ 17,716	$ 634,248	$ 217,597	$ 260,707	$ 57,833	$ 1,188,101
Accumulated depreciation	10,856	219,231	107,512	85,883	38,368	461,850
	$ 6,860	$ 415,017	$ 110,085	$ 174,824	$ 19,465	$ 726,251

Net book value at December 31, 2019 includes capitalized dry-docking costs of $42,919 (2018 - $43,248) and related accumulated depreciation of $20,761 (2018 - $19,555).

Depreciable assets at December 31, 2018 includes progress payments for Equinox Class vessels totalling $22,636. The Company capitalized $700 (2018 – $6,570) related to vessels under construction. The interest rate used for the capitalization of interest is based on the Company's effective rate on long-term debt of 5.98%. In 2018, $12,879 of interest previously capitalized for vessels under construction was reversed upon cancellation of the related vessel contracts (Note 8). No capitalized interest was included in property, plant, and equipment as at December 31, 2019.

15. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(in thousands of dollars)	Goodwill	Intangible Assets	Total
Balance at January 1, 2018	$ 7,910	$ 7,921	$ 15,831
Additions	—	2,414	2,414
Amortization	—	(3,186)	(3,186)
Effect of foreign currency exchange differences	—	594	594
Balance at December 31, 2018	$ 7,910	$ 7,743	$ 15,653
Additions	—	746	746
Amortization	—	(4,903)	(4,903)
Effect of foreign currency exchange differences	—	(302)	(302)
Balance at December 31, 2019	**$ 7,910**	**$ 3,284**	**$ 11,194**

Goodwill

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

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

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

The recoverable amount of the group of CGUs to which the goodwill has been allocated exceeds its carrying amount, inclusive of goodwill, and accordingly no impairment loss has been recognised as at December 31, 2019 and 2018.

Intangible Assets

The Company owns vessels that participate in a self-unloader ocean-going Pool with unrelated parties. From April 2016 to May 2019, 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 two to four years.

The intangible assets were assessed for annual impairment as at December 31, 2019 and 2018, and no impairment was determined to exist.

16. OTHER ASSETS

Other assets consist of the following:

As at December 31 (in thousands of dollars)	2019	2018
Loan receivable from joint venture, interest at 4.98%	**$ 10,984**	$ 14,244
Progress payments for shipbuilding contracts	**6,618**	—
Right-of-use assets (Note 5)	**351**	—
Other	**10**	17
	$ 17,963	$ 14,261

The Company capitalized $186 related to progress payments for shipbuilding contracts for the year ended December 31, 2019. The interest rate used for the capitalization of interest is based on the Company's effective rate on long-term debt of 5.95%.

17. ACCOUNTS PAYABLE AND ACCRUED CHARGES

The components of accounts payable and accrued charges are as follows:

As at December 31 (in thousands of dollars)	2019	2018
Due to suppliers and accrued charges	**$ 60,674**	$ 53,091
Contract liabilities (Note 6)	**1,712**	1,045
Commodity taxes payable	**1,055**	1,985
Other	**—**	189
	$ 63,441	$ 56,310

18. OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

As at December 31 (in thousands of dollars)		2019		2018
Accrued interest on long-term debt	**$**	**4,488**	$	4,251
Dividends payable		**1,459**		668
Lease obligations (Note 5)		**59**		—
Compensation payable to Pool members		**3,347**		4,910
	$	**9,353**	$	9,829

The compensation payable to other Pool members relates to the retirement of three vessels.

19. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

As at December 31 (in thousands of dollars)		2019		2018
Deferred compensation	**$**	**1,681**	$	1,689
Lease obligations (Note 5)		**317**		—
Compensation payable to Pool members		**—**		3,296
	$	**1,998**	$	4,985

20. EMPLOYEE FUTURE BENEFITS

Plan Descriptions

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

The defined benefit plans provide retirement income based on length of service and final average earnings or an amount per month for each year of credited service. The Company also provides other unfunded post-retirement benefits including life insurance and health care to certain employees.

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

The Company measures its accrued benefit obligations and the fair value of the plan assets for accounting purposes at December 31 of each year.

The most recent actuarial valuations of the obligations for the two defined benefit plans for funding purposes were as of January 1, 2018 for The Union Employee Pension Plan for Algoma Ship Repair and January 1, 2019 for the Employee Pension Plan of Algoma Central Corporation. The next required valuations for the defined benefit plans will be as of January 1, 2021 and January 1, 2020, respectively.

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

	Pension Plans		Other Benefit Plans	
	2019	2018	**2019**	2018
Discount rate used for estimating accrued benefit obligation	**3.3%**	4.0%	**3.3%**	4.0%
Discount rate used for estimating net interest cost included in net benefit cost incurred	**4.0%**	3.5%	**4.0%**	3.5%
Rate of compensation increases	**3.0% to 2020, 2.5% thereafter**	3.0% to 2020, 2.5% thereafter	**3.0% to 2020, 2.5% thereafter**	3.0% to 2020, 2.5% thereafter
Mortality assumption	**CPM 2014 Private, Scale CPM-B**	CPM 2014 Private Table with CPM-B	**CPM 2014 Private, Scale CPM-B**	CPM 2014 Private Table with CPM-B

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

The Company's growth rate of health care costs was estimated at 5.3% (2018 – 5.3%), with the rate trending to 4.5% per annum to 2033. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would change the accrued benefit obligation by $444 and ($709) respectively.

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

As at December 31 (in thousands of dollars)	**2019**	2018
Opening balance	**$ (17,137)**	$ (9,662)
Gains (losses) recognized during year, net of income tax	**763**	(7,475)
Other	**(219)**	—
	$ (16,593)	$ (17,137)

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

For the years ended December 31 (in thousands of dollars)	**2019**	2018
Return on plan assets	**$ 9,851**	$ (14,891)
Actuarial losses arising from changes in demographic assumptions	**—**	(1,032)
Actuarial (losses) gains arising from changes in financial assumptions	**(13,724)**	10,948
Actuarial gains (losses) arising from experience adjustments	**36**	(668)
Adjustments for restrictions on the defined benefit asset	**4,875**	(4,527)
	1,038	(10,170)
Income tax recovery	**275**	(2,695)
	$ 763	$ (7,475)

Information, in aggregate, regarding the Company's benefit plans for the years 2019 and 2018 is presented below.

As at December 31, 2019 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Effect of asset ceiling at beginning of year	$ 5,647	$ —	$ 5,647
Interest on the effect of the asset ceiling	226	—	226
Other changes in effect of asset ceiling	(4,875)	—	(4,875)
Effect of asset ceiling at end of year	**$ 998**	**$ —**	**$ 998**

As at December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Effect of asset ceiling at beginning of year	$ 1,082	$ —	$ 1,082
Interest on the effect of the asset ceiling	38	—	38
Other changes in effect of asset ceiling	4,527	—	4,527
Effect of asset ceiling at end of year	$ 5,647	$ —	$ 5,647

Information, in aggregate, regarding the Company's reconciliation of net liability arising from employee future benefits for the years 2019 and 2018 is presented below.

As at December 31, 2019 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 167,337	$ 12,228	$ 179,565
Effect of asset ceiling	998	—	998
Less: fair value of plan assets	(160,320)	—	(160,320)
Other	(1)	4	3
Net liability	**$ 8,014**	**$ 12,232**	**$ 20,246**

As at December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Present value of benefit obligation	$ 155,655	$ 11,370	$ 167,025
Effect of asset ceiling	5,647	—	5,647
Less: fair value of plan assets	(151,386)	—	(151,386)
Other	—	115	115
Net liability	$ 9,916	$ 11,485	$ 21,401

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

As at December 31 (in thousands of dollars)		2019		2018
Employee future benefit liabilities	$	24,856	$	23,853
Employee future benefit assets		(4,610)		(2,452)
Net liability	$	20,246	$	21,401

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

As at December 31, 2019 (in thousands of dollars)

Employee Future Benefit Assets		Pension Plans		Other Benefit Plans		Total
Fair value, beginning of year	$	151,386	$	—	$	151,386
Expected return on plan assets		5,919		—		5,919
Return on plan assets in excess of expected return		9,851		—		9,851
Benefits paid		(9,746)		(706)		(10,452)
Employer contributions to plans		2,377		553		2,930
Employee contributions to plans		533		—		533
Retiree contributions to plans		—		153		153
Fair value, end of year	**$**	**160,320**	**$**	**—**	**$**	**160,320**

Employee Future Benefit Obligations						
Obligations, beginning of year	$	155,477	$	11,370	$	166,847
Employer current service cost		2,009		125		2,134
Employee current service cost		533		—		533
Interest cost		6,042		443		6,485
Benefits paid		(9,746)		(706)		(10,452)
Actuarial gains		12,844		844		13,688
Other		178		—		178
Obligations, end of year	**$**	**167,337**	**$**	**12,076**	**$**	**179,413**

As at December 31, 2018 (in thousands of dollars)

Employee Future Benefit Assets		Pension Plans		Other Benefit Plans		Total
Fair value, beginning of year	$	165,945	$	—	$	165,945
Expected return on plan assets		5,714		—		5,714
Loss on plan assets in below expected return		(14,891)		—		(14,891)
Benefits paid		(8,822)		(641)		(9,463)
Employer contributions to plans		2,843		492		3,335
Employee contributions to plans		597		—		597
Other		—		149		149
Fair value, end of year	$	151,386	$	—	$	151,386

Employee Future Benefit Obligations						
Obligations, beginning of year	$	165,494	$	10,844	$	176,338
Employer current service cost		2,321		158		2,479
Employee current service cost		597		—		597
Interest cost		5,626		369		5,995
Benefits paid		(8,822)		(641)		(9,463)
Retiree contributions		—		149		149
Actuarial losses		(9,307)		(609)		(9,916)
Other		(432)		1,100		668
Obligations, end of year	$	155,477	$	11,370	$	166,847

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

As at December 31 (in thousands of dollars)	2019	2018
The Employee Pension Plan of Algoma Central Corporation	**$ 4,428**	$ 2,452
The Union Employee Pension Plan of Algoma Ship Repair	**182**	—
	$ 4,610	$ 2,452

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

As at December 31 (in thousands of dollars)	2019	2018
Supplementary Employee Retirement Plan	**$ 12,624**	$ 12,368
Other benefit plans	**12,232**	11,485
	$ 24,856	$ 23,853

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

For the year ended December 31, 2019 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,009	$ 125	$ 2,134
Interest cost on plan obligations	6,042	443	6,485
Interest on effect of asset ceiling	226	—	226
Expected return on plan assets	(5,919)	—	(5,919)
Net benefit expense	**$ 2,358**	**$ 568**	**$ 2,926**

For the year ended December 31, 2018 (in thousands of dollars)	Pension Plans	Other Benefit Plans	Total
Current service cost	$ 2,321	$ 158	$ 2,479
Interest cost on plan obligations	5,626	369	5,995
Past service costs that have vested	38	—	38
Expected return on plan assets	(5,714)	—	(5,714)
Net benefit expense	$ 2,271	$ 527	$ 2,798

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

As at December 31 (in thousands of dollars)	2019	2018
Short term notes	**$ 9,948**	$ 14,859
Canadian Government bonds	**31,319**	34,027
Canadian corporate bonds	**3,291**	2,504
Canadian equities	**53,589**	46,489
Foreign equities	**68,296**	58,169
Annuities	**4,010**	4,329
	170,453	160,377
Amount related to defined contribution plans	**(10,133)**	(8,991)
	$ 160,320	$ 151,386

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

The expected rate of return on assets is equal to the discount rate used for estimating the accrued benefit obligation at the prior year-end, which is required under IAS 19 requirements.

The actual return on invested plan assets for 2019 was 11.4% or $17,393 (2018 - (5.0%) or ($8,350)).

The Company expects to make contributions of $1,469 (2018 - $1,504) to the defined benefit pension plans during the next fiscal year.

The expense recognized in the consolidated statements of earnings for defined contribution plans is $1,629 (2018 - $1,371).

Sensitivity analyses

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

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by $16,703 (increase by $24,262).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $2,059 (decrease by $1,367).

- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by $4,496 (decrease by $3,551).

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

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

The average duration of the benefit obligation at December 31, 2019 is 11.0 years (2018: 10.5 years). This number can be analysed as follows:

- active members: 15.1 years (2018: 14.4 years);
- deferred members: 15.2 years (2018: 14.3 years); and
- retired members: 9.1 years (2018: 8.6 years).

21. LONG-TERM DEBT

As at December 31 (in thousands of dollars)	2019	2018
Convertible unsecured subordinated debentures, due June 30, 2024, interest at 5.25%	**$ 80,184**	$ 79,749
Senior Secured Notes, due July 19, 2021		
U.S. $75,000, interest fixed at 5.11%	**97,410**	102,315
Canadian $75,000, interest fixed at 5.52%	**75,000**	75,000
Bank Facility, due June 21, 2021		
Prime rate loan, interest at 4.95%, payable on demand	**15,000**	—
LIBOR, U.S. $40,000, interest at 3.91%, due June 1, 2020	**51,952**	—
LIBOR, U.S. $10,000, interest at 3.90%, due March 3, 2020	**12,988**	—
Mortgage payable, due March 8, 2023, interest at 4.73%	**5,625**	5,756
	338,159	262,820
Less: unamortized financing expenses	**3,306**	4,232
	334,853	258,588
Less: current portion of long-term debt	**80,076**	130
	$ 254,777	$ 258,458

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

As at December 31, 2019 and December 31, 2018 the Company was in compliance with all of its covenants.

During 2019, the Company capitalized $886 (2018 - $6,570) in borrowing costs using a capitalization rate of 5.95% (2018 - 5.98%). The unamortized financing expenses relate to costs incurred to establish the credit facilities and to issue the debentures and senior notes and are being amortized over the remaining terms using the effective yield method.

Principal payments required to service the debt are as follows:

As at December 31 (in thousands of dollars)	2019	2018
Falling due within one year	**$ 80,076**	$ 130
Falling due between one and two years	**172,553**	136
Falling due between two and three years	**150**	177,458
Falling due between three and four years	**5,196**	150
Falling due in four years or later	**80,184**	84,946
	$ 338,159	$ 262,820

22. SHARE CAPITAL

Share capital

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

The Company had 37,824,543 common shares outstanding as at December 31, 2019 (December 31, 2018 - 38,421,615).

At December 31, 2019 and December 31, 2018 there were no preferred shares issued and outstanding.

The Company's Board of Directors on January 16, 2020 authorized payment of a quarterly dividend to shareholders of $0.12 per common share. The dividend is payable on March 2, 2020 to shareholders of record on February 17, 2020.

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

For the years ended December 31 (in thousands of dollars)	**2019**	2018
Net earnings	**$ 24,159**	$ 50,943
Interest expense on debentures, net of tax	**3,957**	3,939
Net earnings for diluted earnings per share	**$ 28,116**	$ 54,882
Basic weighted average common shares	**38,212,003**	38,493,198
Shares due to dilutive effect of debentures	**4,031,546**	3,900,709
Diluted weighted average common shares	**42,243,549**	42,393,907
Basic earnings per common share	**$ 0.63**	$ 1.32
Diluted earnings per common share	**$ 0.63**	$ 1.29

Convertible Debentures

The Company's Board of Directors authorized the payment of a special dividend in the amount of $0.75 per common share, which was paid on June 3, 2019. The payment of this special dividend triggered an adjustment of $1.15 to the conversion price of the unsecured debentures, reducing the conversion price per share from $21.15 to $20.00. The lower conversion price resulted in an increase in the quantity of issuable shares under conversion from 3,900,709 to 4,125,000.

Normal Course Issuer Bid

On March 15, 2019, the Toronto Stock Exchange accepted Algoma's notice of intention to renew its normal course issuer bid ("NCIB") to purchase up to 1,920,735 of its common shares, representing approximately 5% of the common shares issued and outstanding as of the close of business on March 7, 2019.

Under the NCIB, the Company may purchase up to 1,000 common shares per day, representing 25% of the average daily trading volume for the previous six months. The Company may buy back common shares anytime during the twelve-month period beginning on March 19, 2019 and ending on March 18, 2020. 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 Interim Condensed Consolidated Statement of Changes in Equity.

Total Common Shares purchased for the year ended December 31, 2019 under the current NCIB were 590,172 for an aggregate purchase price of $7,930. The Company's previous NCIB, which began on January 29, 2018 and concluded on January 28, 2019, resulted in the repurchase and cancellation of 137,600 common shares.

23. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Hedges			
(in thousands of dollars)	Net investment	Purchase commitment	Foreign exchange translation	Total
Balance at December 31, 2017	$ (13,179)	$ 665	$ (10,993)	$ (23,507)
(Loss) gain	(11,677)	1,914	26,865	17,102
Reclassified to earnings	—	(3,284)	—	(3,284)
Reclassified to property, plant, and equipment	—	(72)	—	(72)
Income tax (expense) recovery	(1,861)	777	—	(1,084)
Net (loss) gain	(13,538)	(665)	26,865	12,662
Balance at December 31, 2018	$ (26,717)	$ —	$ 15,872	$ (10,845)
Gain (loss)	5,232	—	(20,142)	(14,910)
Income tax expense	(195)	—	—	(195)
Net gain (loss)	5,037	—	(20,142)	(15,105)
Balance at December 31, 2019	**$ (21,680)**	**$ —**	**$ (4,270)**	**$ (25,950)**

24. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

The other items not affecting cash are as follows:

For the years ended December 31 (in thousands of dollars)	Notes	2019	2018
Interest expense	9	**$ 19,860**	$ 25,499
Interest income		**(1,167)**	(13,752)
Foreign currency gain	10	**886**	(9,590)
Income tax expense	11	**5,109**	8,550
Other		**2,070**	2,478
		$ 26,758	$ 13,185

The change in non-cash operating working capital is as follows:

For the years ended December 31 (in thousands of dollars)	2019	2018
Accounts receivable	**$ 5,102**	$ (8,395)
Materials and supplies	**(2,396)**	1,031
Prepaid expenses	**(5,014)**	(692)
Accounts payable and accrued charges	**11,030**	(2,590)
Derivatives, net	**1,571**	(6,620)
Other working capital	**(432)**	(1,461)
	$ 9,861	$ (18,727)

The change in additions to property, plant and equipment is as follows:

For the years ended December 31 (in thousands of dollars)	Notes	2019	2018
Additions to property, plant, and equipment	14	**$ (205,948)**	$ (78,481)
Capitalized interest	14	**700**	6,570
Amounts included in working capital		**(3,898)**	3,814
		$ (209,146)	$ (68,097)

25. CAPITAL DISCLOSURE

The Company’s objectives for managing capital are as follows:

- Provide sustained growth of shareholder value by earning long-term returns on equity of 9.5%.
- Maintain a strong capital base to gain investor, creditor and market confidence and to sustain future growth. In this regard, the Company will target to maintain a long-term debt to equity ratio of no greater than one-to-one. The Company views a one-to-one ratio as a maximum rate due to the capital intensive nature of the business.
- Pay regular quarterly dividends to shareholders.

The Company’s Board of Directors reviews the ROE target on an annual basis and it reviews the level of dividends to be paid to the Company’s shareholders on a quarterly basis.

Included in ROE are net earnings and average shareholders' equity. The returns on equity over the last five years of the Company ranged from 3.5% to 9.0%.

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

The long-term debt to shareholders’ equity ratio is as follows:

As at December 31 (in thousands of dollars)	2019	2018
Total long-term debt	**$ 338,159**	$ 262,820
Shareholders' equity	**$ 660,421**	$ 702,555
Debt to shareholders' equity ratio	**0.51 to 1**	0.37 to 1

26. COMMITMENTS

The Company has commitments to construct one gearless bulk carrier, one self-unloading bulk carrier, and, through its interest in a joint venture, an additional six bulk carriers. Payments for the gearless bulk carrier are $11,390 ($8,770 USD) in 2020 and $20,885 ($16,080 USD) in 2021. The Company will acquire the self-unloading bulk carrier for an estimated cost of $46,757 ($36,000 USD) upon completion of the vessel by the shipyard in 2020. The Company's share of payments for the other bulk carriers are $16,696 ($12,855 USD) in 2020 and $9,676 ($7,450 USD) in 2021.

27. CONTINGENCIES

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

28. 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:

As at December 31 (in thousands of dollars)	**2019**	2018
Financial assets carrying and fair value:		
Cash	**$ 18,865**	$ 25,539
Accounts receivable	**$ 67,612**	$ 72,714
Derivative asset	**$ —**	$ 1,571
Contract cancellation receivable	**$ —**	$ 68,040
Loan interest receivable	**$ 634**	$ 709
Other assets	**$ 10,994**	$ 14,261
Financial liabilities carrying and fair value:		
Accounts payable and accrued charges	**$ 63,441**	$ 56,310
Dividends payable	**$ 1,459**	$ 668
Accrued interest on long-term debt	**$ 4,488**	$ 4,251
Compensation payable to Pool members	**$ 3,347**	$ 8,206
Carrying value of long-term debt	**$ 338,159**	$ 262,820
Fair value of long-term debt	**$ 346,985**	$ 267,287

The derivative assets and liabilities were classified as Level 2.

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

Financial risk management objectives

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

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

The Company may also utilize foreign exchange forward contracts and hedges related to purchase commitments to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join the Canadian flag domestic dry-bulk fleet.

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

Risk Management and Financial Instruments

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

Credit risk

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

The Company believes that the credit risk for accounts receivable is limited since the majority of accounts receivable at December 31, 2019 and 2018 have been outstanding for 60 days or less, and the customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies.

A provision for bad debts is established when it is determined the amount to be collected is lower than the carrying value. The allowance for doubtful accounts at December 31, 2019 and December 31, 2018 was not significant. The percentage of accounts receivable greater than 60 days past due was 13.0% and 20.3%, for December 31, 2019 and 2018, respectively.

Liquidity risk

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

The Company maintains credit facilities, which are reviewed regularly to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facility at December 31, 2019 was Canadian $100,000 and USD $100,000 (2018 - Canadian $50,000 and USD $100,000) in a revolving facility. At December 31, 2019, the Company had Canadian $85,000 (2018 - $50,000) and USD. $50,000 (2018 - $100,000) available in the existing credit facility.

Substantially, all of the Company's wholly owned marine assets were pledged as collateral for the line of credit. The carrying value as of December 31, 2019 of the assets pledged was approximately $835,222. The Company's real estate assets and vessels that are not wholly owned are not directly encumbered under these agreements.

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

(in thousands of dollars)		2020		2021		2022		2023		2024 and Beyond		Total
Long-term debt including equity component	$	80,076	$	172,553	$	150	$	5,196	$	80,184	$	338,159
Capital asset commitments		74,843		30,561		—		—		—		105,404
Interest payments on long-term debt		14,854		9,559		4,581		4,391		2,166		35,551
	$	169,773	$	212,673	$	4,731	$	9,587	$	82,350	$	479,114

Market risk

(a) Fuel prices

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

(b) Interest rate risk

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

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite. At December 31, 2019 and 2018, the Company did not have any significant cash flow exposure to interest rate movements for its outstanding debt, since the majority of its borrowings have interest rates that have been fixed (Note 21).

(c) Interest rate sensitivity analysis

At December 31, 2019 and 2018 respectively, the majority of the Company borrowings have interest rates that are fixed, therefore there is minimal exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period.

(d) Foreign currency exchange risk

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

At December 31, 2019 and December 31, 2018, approximately 41% and 38% respectively of the Company's total assets were denominated in U.S. dollars, including U.S. cash of $9,564 and $10,676 at December 31, 2019 and December 31, 2018, respectively.

The Company's exposure to foreign currency fluctuations is related to its unhedged cash balances and unhedged net investment in foreign subsidiaries. The Company has hedged part of its investment in the subsidiaries and joint ventures against its foreign denominated long-term debt. At December 31, 2019 and 2018, the net investment in U.S. dollar foreign subsidiaries and joint ventures was $358,080 and $272,247 U.S. dollars, respectively. The amount used as a hedge at December 31, 2019 and 2018 was $125,000 and $75,000 U.S. dollars respectively.

The Company has significant commitments due for payment in U.S. dollars. For payments due in U.S. dollars, the Company mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt.

As of December 31, 2018 the Company had U.S. dollar denominated foreign exchange forward contracts outstanding with a notional principal of $14,000 and fair value gain of $1,571). As of December 31, 2019 the Company did not have any U.S. dollar denominated foreign exchange forward contracts outstanding.

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

Based on the Company's estimates, a ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase net earnings in the current year by $761.

Based on the balances at December 31, 2019 and 2018:

- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase other comprehensive earnings by $36,629 and $31,279, respectively.
- A ten-cent weakening in the Canadian dollar relative to the Euro dollar would increase other comprehensive earnings by $340 and $14, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S. dollar would increase total assets by $36,139 and $30,895, respectively.
- A ten-cent weakening in the Canadian dollar relative to the U.S dollar would increase total liabilities by $12,500 and $7,500, respectively.

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

29. 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 by reportable segment.

	Domestic Dry-Bulk	Product Tankers	Ocean Self-Unloaders	Corporate	Investment Properties	Global Short Sea Shipping	Total
For the year ended December 31, 2019 (in thousands of dollars)							
Revenue	$ 281,680	$ 141,912	$ 131,425	$ 3,082	$ 9,809	$ —	$ 567,908
Operating expenses	(212,844)	(104,439)	(82,959)	(1,042)	(6,956)	—	(408,240)
Selling, general and administrative	(11,289)	(4,019)	(1,136)	(14,839)	—	—	(31,283)
Depreciation and amortization	(24,112)	(13,555)	(28,657)	(966)	(2,725)	—	(70,015)
Operating earnings (loss)	33,435	19,899	18,673	(13,765)	128	—	58,370
Interest, net	—	—	—	(18,693)	—	—	(18,693)
Foreign currency loss	—	—	—	(886)	—	—	(886)
	33,435	19,899	18,673	(33,344)	128	—	38,791
Income tax (expense) recovery	(9,238)	(5,273)	—	9,330	72	—	(5,109)
Net loss from investments in joint ventures	—	—	(777)	—	—	(8,746)	(9,523)
Net earnings (loss)	$ 24,197	$ 14,626	$ 17,896	$ (24,014)	$ 200	$ (8,746)	$ 24,159
As at December 31, 2019 (in thousands of dollars)							
Assets							
Current assets	$ 58,989	$ 4,916	$ 23,965	$ 25,046	$ 1,513	$ —	$ 114,429
Property, plant, and equipment	430,545	120,755	281,711	6,668	16,708	—	856,387
Investments in joint ventures	—	—	3,751	—	—	139,043	142,794
Goodwill and intangible assets	7,910	—	3,284	—	—	—	11,194
Other assets	6,815	—	9	15,749	—	—	22,573
	$ 504,259	$ 125,671	$ 312,720	$ 47,463	$ 18,221	$ 139,043	$ 1,147,377
Liabilities							
Current liabilities	$ 36,343	$ 13,612	$ 15,520	$ 10,870	$ 424	$ —	$ 76,769
Current portion of long-term debt	—	—	—	80,076	—	—	80,076
Long-term liabilities	3,036	15,987	70	56,241	—	—	75,334
Long-term debt	—	—	—	254,777	—	—	254,777
	39,379	29,599	15,590	401,964	424	—	486,956
Shareholders' Equity	464,880	96,072	297,130	(354,501)	17,797	139,043	660,421
	$ 504,259	$ 125,671	$ 312,720	$ 47,463	$ 18,221	$ 139,043	$ 1,147,377

		Domestic Dry-Bulk		Product Tankers		Ocean Self-Unloaders		Corporate		Investment Properties		Global Short Sea Shipping		Total
For the year ended December 31, 2018 (in thousands of dollars)														
Revenue	$	297,662	$	106,271	$	90,277	$	2,878	$	11,113	$	—	$	508,201
Operating expenses		(222,862)		(88,070)		(57,026)		(873)		(7,300)		—		(376,131)
Selling, general and administrative		(12,523)		(2,257)		(2,338)		(12,975)		—		—		(30,093)
Depreciation and amortization		(22,700)		(9,867)		(19,394)		(970)		(2,783)		—		(55,714)
Operating earnings (loss)		39,577		6,077		11,519		(11,940)		1,030		—		46,263
Impairment reversal		6,864		—		—		—		—		—		6,864
Interest, net		(170)		—		—		(11,577)		—		—		(11,747)
Foreign currency gain		7,377		—		—		2,213		—		—		9,590
		53,648		6,077		11,519		(21,304)		1,030		—		50,970
Income tax (expense) recovery		(10,482)		(1,475)		—		3,762		(355)		—		(8,550)
Net earnings from investments in joint ventures		—		—		717		—		—		7,806		8,523
Net earnings (loss)	$	43,166	$	4,602	$	12,236	$	(17,542)	$	675	$	7,806	$	50,943
As at December 31, 2018 (in thousands of dollars)														
Assets														
Current assets	$	57,247	$	8,224	$	15,599	$	111,622	$	7,295	$	—	$	199,987
Property, plant, and equipment		415,017		110,085		174,824		6,860		19,465		—		726,251
Investments in joint ventures		—		—		4,167		—		—		149,122		153,289
Goodwill and intangible assets		7,910		—		7,743		—		—		—		15,653
Other assets		—		—		6		16,707		—		—		16,713
	$	480,174	$	118,309	$	202,339	$	135,189	$	26,760	$	149,122	$	1,111,893
Liabilities														
Current liabilities	$	35,864	$	12,216	$	9,717	$	14,570	$	1,115	$	—	$	73,482
Current portion of long-term debt		—		—		—		130		—		—		130
Long-term liabilities		34,333		15,918		3,715		20,245		3,057		—		77,268
Long-term debt		—		—		—		258,458		—		—		258,458
		70,197		28,134		13,432		293,403		4,172		—		409,338
Shareholders' Equity		409,977		90,175		188,907		(158,214)		22,588		149,122		702,555
	$	480,174	$	118,309	$	202,339	$	135,189	$	26,760	$	149,122	$	1,111,893

Certain comparative figures have been reclassified to conform to the current year presentation which reflects the measures reviewed by the chief operating decision maker.

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

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

As at December 31 (in thousands of dollars)		**2019**		2018
Property, plant, and equipment	**$**	**281,711**	$	174,824
Revenues	**$**	**131,425**	$	90,277

Revenue earned outside of Canada, primarily in the United States, relate to vessel operations and are based on the location at which a shipment is unloaded. For the years ended December 31, 2019 and 2018, sales outside of Canada were $185,610 and $139,556, respectively.

The Company had two customers in 2019 and two in 2018 whose revenues exceeded 10% of consolidated revenues. Sales by segment for these customers are as follows:

For the years ended December 31 (in thousands of dollars)		**2019**		2018
Domestic Dry-Bulk	**$**	**61,085**	$	102,662
Product Tankers	**$**	**136,997**	$	93,169

30. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key members of management is as follows:

For the years ended December 31 (in thousands of dollars)		**2019**		2018
Short-term compensation and benefits	**$**	**6,812**	$	5,286
Termination benefits		**621**		—
Share-based compensation		**360**		122
Post-employment benefits		**176**		171
	$	**7,969**	$	5,579

31. SHARE-BASED COMPENSATION

The Company maintains a stock option program for certain key employees. Options on common shares are periodically granted to eligible employees under the plan for terms of 5 years and cliff vest on the third anniversary of the grant date. These options provide holders with the right to purchase common shares of the Company at a fixed price equal to the closing market price of the shares on the day prior to the date the options were issued. Under this plan, 1,920,736 common shares have been reserved for future issuance. The outstanding options expire on various dates to March 1, 2024. The following table summarizes the Company's stock option activity and related information for the years ended December 31, 2019 and 2018.

As at December 31 (in thousands of dollars, except per share data and number of shares)	**2019**			2018		
Stock Option Activity	**Number of shares**		**Weighted average exercise price**	Number of shares		Weighted average exercise price
Number outstanding, beginning of period	**250,000**	**$**	**15.06**	—	$	—
Granted	**130,000**		**13.15**	250,000		15.06
Forfeited/cancelled	**(150,000)**		**(15.06)**	—		—
Exercise price adjustment	**—**		**(0.55)**	—		—
Number outstanding, end of period	**230,000**	**$**	**13.43**	250,000	$	15.06

The Company's Board of Directors authorized the payment of a special dividend in the amount of $0.75 per common share, which was paid on June 3, 2019. The payment of the special dividend triggered an adjustment of $0.55 to the weighted average exercise price of the stock options.

The following table summarizes information relating to stock options outstanding as at December 31, 2019.

(amounts not stated in thousands)	Options outstanding	
Exercise price per share	Number of shares	Remaining contractual life (years)
$12.60	130,000	4.17
$14.51	100,000	3.36

For the period ended December 31, 2019, the Company recognized compensation expense for stock option awards of $41 (2018 - $110). For the period ended December 31, 2019, 130,000 (2018 - 250,000) options were granted by the Company at a weighted average fair value of $1.45 per option (2018 - $1.98).

The following table summarizes the assumptions used for estimating the fair value of options for the years ended December 31.

(amounts not stated in thousands)	**2019**	2018
Risk-free interest rate	**2.02%**	2.13%
Expected option life	**5 years**	5 years
Expected volatility*	**17.25%**	17.36%
Expected dividend yield	**2.58%**	2.38%

*Expected volatility is calculated based on the average daily volatility measured over a historical period corresponding to the expected option life.

Other share-based compensation plans

The Company has other share unit plans which are awarded to certain employees. Under these plans, participants are awarded share units equivalent to the Company’s common shares, which vest over three years. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. At the maturity date, the participant receives cash representing the value of the share units. The number of share units outstanding under these plans as at December 31, 2019 was 180,210 (2018 – 163,338).

Compensation expense for these plans is recorded in the year the incentive award is earned by the participant. Changes in the value of these plans are recorded in the Consolidated Statement of Earnings. For the year ended December 31, 2019, the Company recognized compensation expense for these plans of $50 (2018 – ($558)). The carrying amount of the liability relating to these plans, based on the closing share price, was $2,350 at December 31, 2019 (2018 – $2,192), and is reported in Accounts payable and accrued charges and Other long-term liabilities on the Consolidated Balance Sheet.

32. RELATED PARTIES

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

There were no transactions with the Company's ultimate controlling party in 2019 and 2018.

33. COMPARATIVE FIGURES

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

Five-Year Summary

(in thousands of dollars, except per share data)	2019	2018 (Note 7)	2017 (Note 1, 5)	2016 (Note 1)	2015
Revenue					
Domestic Dry-Bulk	$ 281,680	$ 297,662	$ 278,265	$ 244,221	$ 299,553
Product Tankers	141,912	106,271	86,274	63,004	75,335
Ocean Dry-Bulk Shipping	131,425	90,277	74,912	72,179	38,605
Investment Properties	9,809	11,113	11,599	12,002	—
Corporate	3,082	2,878	1,897	—	—
	$ 567,908	$ 508,201	$ 452,947	$ 391,406	$ 413,493
Net earnings	$ 24,159	$ 50,943	$ 58,800	$ 33,315	$ 25,771
Segment earnings net of income taxes	$ 24,159	$ 50,943	$ 34,972	$ 24,554	$ 37,534
Depreciation and amortization	$ 70,015	$ 55,714	$ 51,571	$ 46,903	$ 44,907
General and administrative expenses	$ 31,283	$ 30,093	$ 28,776	$ 29,309	$ 26,313
Cash flow from operations	$ 137,758	$ 83,349	$ 59,669	$ 90,088	$ 57,751
Dividends paid	$ 43,381	$ 14,647	$ 11,611	$ 10,895	$ 10,895
Property, plant, and equipment					
Additions in year	$ 205,948	$ 78,481	$ 157,520	$ 248,864	$ 115,857
Net book value	$ 856,387	$ 726,251	$ 769,845	$ 660,251	$ 513,140
EBITDA (Note 2)	$ 157,427	$ 128,748	$ 107,882	$ 87,922	$ 79,538
Total assets	$ 1,147,377	$ 1,111,893	$ 1,100,290	$ 1,036,013	$ 988,805
Long-term debt including current	$ 338,159	$ 262,820	$ 297,333	$ 243,260	$ 246,754
Shareholders' equity	$ 660,421	$ 702,555	$ 663,066	$ 641,550	$ 618,610
LTD as a percent of shareholders' equity	51.2%	37.4 %	44.8%	37.9 %	39.9 %
Return on equity (Note 3)	3.5%	7.5 %	9.0%	5.3 %	4.2 %
Total shareholder return (Note 4)	12.0%	(18.5)%	33.6%	(10.5)%	(12.9)%
Common Share Statistics					
Shares outstanding	37,825	38,422	38,552	38,913	38,913
Basic earnings per share	$ 0.63	$ 1.32	$ 1.51	$ 0.85	$ 0.66
Diluted earnings per share	$ 0.63	$ 1.29	$ 1.38	$ 0.74	$ 0.66
Cash flow per share	$ 3.64	$ 2.17	$ 1.55	$ 2.31	$ 1.48
Quoted market value					
High	$ 14.23	$ 16.00	$ 16.04	$ 14.18	$ 17.60
Low	$ 12.27	$ 11.61	$ 11.46	$ 9.75	$ 13.27
Dividends paid per share (Note 6)	$ 1.16	$ 0.39	$ 0.32	$ 0.28	$ 0.28
Shareholders' equity per share	$ 17.46	$ 18.29	$ 17.20	$ 16.49	$ 15.90

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

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

Note 3 - Return on equity is net earnings as a percent of average shareholders' equity.

Note 4 - Total shareholder return is defined as the increase or decrease in the year in the common share price plus dividends paid expressed as a percent of the closing share price.

Note 5 - Some items have been restated in accordance with the revision to prior period comparatives detailed in Note 7 of the 2018 consolidated financial statements

Note 6 - In 2019 there was a $0.75 special dividend paid to shareholders. Not including the special dividend, dividends paid per share were $0.41.

Note 7 - Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

Shareholder and Investor Information

Directors

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

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

E. M. Blake Hutcheson (1) (3)
Toronto, Ontario,
President and Chief Pension Officer, OMERS

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

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

Clive P. Rowe (2) (4) (5)
Gulf Stream, Florida
Corporate Director

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

Eric Stevenson (2) (3) (5)
Toronto Ontario,
Venture Capitalist and Co-Founder
Perseverance Marine

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

Principle Officers

Duncan N. R. Jackman
Chairman

Gregg A. Ruhl
President and Chief Executive Officer

Peter D. Winkley, CPA, CA
Chief Financial Officer

J. Wesley Newton, LLB
Senior VP, Corporate Development and General Counsel

Brad Tiffin
Senior Vice-President, Operations & Technical

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

Fredrik Hanson
Vice-President, Finance & Administration

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

Bruce Partridge, MBA
Vice-President, Commercial

Steve Wright
Vice-President, Engineering

Jeff DeRosario
Assistant Vice-President, Marketing

Joshua Juel
Assistant Vice-President, Marine Ops & Fleet Personnel

Darren Pearson
Assistant Vice-President, Operations

Cathy Smith
Assistant Vice-President, Human Resources

Shareholders' Meeting

The Annual General Meeting of Shareholders will be held at 11:30 a.m., on Wednesday, May 6, 2019 at the Offices of Deloitte LLP, Bay Adelaide East, 8 Adelaide Street West, Toronto, ON, M5H 0A9.

Shareholder Information

Principal Banker and Security Agent:	The Bank of Nova Scotia
Auditors:	Deloitte LLP
Toronto Stock Exchange Symbols:	ALC - Common Stock ALC DB.A - Convertible Debenture
Share Registrar and Transfer Agent:	AST Trust Company (Canada)
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	Toronto, ON M5V 2V6
	Tel: 416-682-3800 or 1-888-402-1644
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