2009

ANNUAL REPORT

Algoma Central Corporation

Domestic Dry-Bulk		Product Tankers		Ocean Shipping		Real Estate
Seaway Marine Transport	**Fraser Marine & Industrial**	**Algoma Tankers**	**Algoma Tankers International Inc.**	**Algoma Shipping Inc.**	**Marbulk Canada Inc. Marbulk Shipping**	**Algoma Central Properties Inc.**
Dry-bulk pool of 34 vessels *1 under construction*	**Ship repair**	**Owns 7 domestic tankers**	**Owns 1 foreign-flag tanker** *5 under construction*	**Owns 2 self-unloaders & 3 geared bulkers**	**Owns 5 self-unloaders**	**Sault Ste. Marie St. Catharines Waterloo**
59%	100%	100%	100%	100%	50%	100%

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About the Corporation

Algoma Central Corporation owns Canada's largest domestic fleet of vessels operating on the Great Lakes - St. Lawrence Waterway. This fleet consists of thirteen self-unloading and five gearless bulk carriers and seven product tankers. The Corporation has interests in ocean dry-bulk and product tanker vessels operating in international markets. The Corporation owns a diversified ship and diesel engine repair and fabricating facility active in the Great Lakes and St. Lawrence regions of Canada. In addition, the Corporation owns Algoma Central Properties Inc. and Algoma Central Hotels Ltd. which own and manage commercial real estate properties in Sault Ste. Marie, St. Catharines and Waterloo, Ontario, and has a 50% interest in 75 Corporate Park Drive Ltd. with Meridian Credit Union which owns an office building in St. Catharine's, Ontario.

The Corporation reached the milestone of 110 years of age in 2009. Its origins trace back to its creation as a railway in Sault Ste. Marie, Ontario in 1899. The Corporation's executive offices are located in St. Catharines, Ontario. The Corporation employs approximately 1,500 people world-wide. The Corporation has assets of $694 million and revenues of $520 million.

The Domestic Dry-Bulk segment includes thirteen self-unloading and five bulk carriers and Fraser Marine and Industrial, a division that provides ship and diesel engine repair and steel fabricating services. The Corporation's vessels are commercially and operationally managed by Seaway Marine Transport (SMT) a partnership with Upper Lakes Shipping Inc., an unrelated company. SMT holds a 25% interest in Laken Shipping Corporation (Laken), a U.S. company that owns a U.S. flag tug and barge. A wholly owned subsidiary of SMT, called SMT (USA), time charters the tug and barge from Laken and commercially manages them.

The Product Tanker segment serves both domestic and international markets. The domestic fleet of seven product tankers is owned and operated through a wholly owned subsidiary, Algoma Tankers Limited (ATL). The Corporation's wholly owned subsidiary, Algoma Tankers International Inc. (ATI) owns one product tanker currently active in international markets. ATI's existing product tanker and the five new product tankers under construction will become part of the new international product tanker venture called Hanseatic Tankers. Other participants in Hanseatic Tankers include Bernhard Schulte of Hamburg, Germany, Sloman Neptun of Bremen, Germany, Intrepid Shipping LLC of Stamford, Connecticut and IMS Holdings LLC of Houston, Texas.

The Corporation's international Ocean Shipping segment consists of two entities. Marbulk Canada Inc. (MCI) is jointly owned by the Corporation and CSL Group Inc. It owns four ocean self-unloaders and a fifth self-unloader that is jointly owned with Bernhard Schulte. Algoma Shipping Inc. (ASI), a wholly owned subsidiary of the Corporation, owns two ocean self-unloading vessels and three ocean handy-sized geared bulk carriers. The seven MCI and ASI ocean self-unloaders are combined with twenty other ocean self-unloaders owned by CSL International Inc., of Beverly, Massachusetts, Oldendorff Carriers, based in Lübeck, Germany and T. Klaveness Shipping AS, based in Oslo, Norway to form the CSL International (CSLI) commercial arrangement.

Financial Highlights

In thousands except per share figures		2009		2008
For the year				
Revenue	$	**520,147**	$	688,914
Net earnings	$	**38,845**	$	41,280
Operating ratio *(Note 1)*		**88%**		86%
Cash flow from operations	$	**60,336**	$	89,975
Capital asset additions	$	**91,318**	$	169,905
Dividends paid per common share	$	**1.80**	$	1.70
Earnings per common share	$	**9.98**	$	10.61
At December 31				
Total assets	$	**694,306**	$	706,092
Shareholders' equity	$	**438,733**	$	440,070
Long-term debt (including current)	$	**112,953**	$	95,184
Common shares outstanding		**3,891**		3,891
Equity per common share	$	**112.76**	$	113.10

Note 1- Operating ratio is defined as operating expenses plus amortization on capital assets as a percent of revenue.

Message to Shareholders

It was anticipated when our 2008 Annual Report was published early last year that 2009 would be a very difficult and challenging year for the Corporation. This has certainly come to pass but more fundamentally, it has been a very difficult and challenging year for the majority of the customers that we serve.

Tonnage levels for many of our major customers dropped significantly from the levels we enjoyed in 2008 and earlier. These reductions in demand were virtually all due to the impact that the global economic crisis and North American recession had on our customers' businesses. Overall, the tonnage carried by our vessels in the three fleets we are part of was down by 26%.

In addition to the overall difficult economic conditions in North America, the main customer segments contributing to this significant reduction were our iron and steel customers influenced mainly by the poor performance of the auto sector, our aggregate customers influenced by the difficult performance of the road construction and building sectors, our gypsum customers influenced by the significant drop in housing starts and our power generation customers influenced by both economic and weather conditions. The foregoing customer demand fluctuations have had a significant impact on our 2009 results.

We are reporting net earnings of $38.8 million or $9.98 per share in 2009, a decrease of 6% compared to 2008 earnings of $41.3 million or $10.61 per share.

In addition to the impact resulting from our customers reduced requirements, the following have also affected our net earnings:

- Improvement in earnings due to the gain recorded on the insurance proceeds on the loss of the *Algoport*.
- Improvement in earnings due to the net gains on translation of foreign-denominated assets and liabilities due to the significant strengthening of the Canadian dollar relative to the U.S. dollar.
- Improvement in earnings due to one-time tax adjustments relating to the announced lowering of the Ontario corporate income tax rate and the recognition of the income tax benefit of a deduction relating to costs involved in purchasing new pollution control equipment.
- Decrease in earnings due to an increase in interest expense due to additional borrowings and costs associated with securing a new credit facility.

Despite net earnings of $38.8 million, the Corporation's Shareholders' Equity decreased from $440.0 million to $438.7 million. The decrease was due to a reduction in the Accumulated Other Comprehensive Earnings of $32.1 million resulting mainly from the unrealized loss in 2009 on the translation of the net investment in foreign self-sustaining operations. The loss was a result of the strengthening of the Canadian dollar relative to the U.S. dollar.

Overall, our consolidated revenue decreased to $520.1 million, a decrease of 25% from consolidated revenue of $688.9 million in 2008. Our consolidated revenue was impacted by two main factors in 2009. Firstly, we experienced a significant reduction in revenue as a result of the previously mentioned customer tonnage reductions and, in addition, revenue decreased because of a significant reduction in the fuel surcharges paid by customers due to falling fuel prices throughout 2009.

Our cash flow from operations also decreased significantly to $60.3 million compared to $90.0 million in 2008. This cash flow was used to fund dividends of $6.8 million and repay long-term debt of $5.5 million with the balance being used to partially fund capital expenditures in the year.

The balance of our $91.3 million capital expenditure program in 2009 was funded by drawdowns from our credit facility.

Following is a summary of the significant capital projects undertaken in 2009:

- Construction of three 16,500 deadweight product/chemical tankers at Jiangzhou Union Shipyard in China. These vessels are expected to be delivered in early to mid 2011 and are expected to cost $33 million each.
- Construction of two 25,000 deadweight product/chemical tankers at Nantong Mingde Shipyard in China. These vessels are expected to be delivered in early and mid 2011 and are expected to cost $44 million each.
- Construction of two maximum seaway-sized self-unloading forebodies at Chengxi Shipyard in China, which will be jointly owned with our partner in Seaway Marine Transport. The first forebody was attached to the aft-end of our *Algobay* and the completed vessel, renamed the *Algobay* as well, was delivered to the Corporation in November 2009.

  The second forebody, which was launched in November 2009, was to be attached to the aft-end of the *Algoport*. Unfortunately, the *Algoport* broke up in heavy seas in the Pacific Ocean on September 6, 2009 while under tow enroute to the Chengxi Shipyard in China. There were no injuries, loss of life or environmental impact and the vessel had adequate insurance coverage. The insurance proceeds will be used to construct a new aft-end at Chengxi Shipyard, which will be attached to the already launched forebody under construction. We expect the completed vessel to be delivered by the shipyard in January 2011. Although this event has resulted in a delayed delivery of approximately six months, we are very pleased that we were able to reach an agreement with the shipyard for the construction of a new aft-end, which will provide significant operational and environmental efficiencies.
- Renovation and modernization of the Corporation's hotel property located in Sault Ste. Marie, Ontario. This project was completed on January 18, 2010, at a cost of $6.7 million. The hotel, which re-opened on the completion date as the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre, is the city's only upscale, full service, four star hotel.

The Corporation has total remaining capital commitments of $146.6 million primarily for the six vessels under construction in China.

Five of these six vessels under construction are the product/chemical tankers we have on order from Jiangzhou Union Shipyard and Nantong Mingde Shipyard in China. These vessels will, over the next two years, join the Hanseatic Tankers commercial arrangement, which commenced in 2008.

Currently, four vessels, including our *Algoma Hansa*, are being operated by Hanseatic Tankers. Once all partners' vessels are delivered, Hanseatic Tankers is expected to consist of eighteen 16,500 deadweight product/chemical tankers and six 25,000 deadweight product/chemical tankers. The main trading areas for these vessels are expected to be focused in Europe, the Mediterranean, the Middle East and Asia. Although the current market for small product/chemical tankers is quite depressed, we still remain confident in the long-term viability of the Hanseatic Tanker joint venture.

In order to adequately fund the remaining committed capital expenditures, the Corporation completed in November 2009 a two-year $260 million credit facility with a syndicate of six financial institutions.

We were very pleased to be able to put this facility in place with these prominent financial institutions led by The Bank of Nova Scotia, our long-time relationship bank, during this period of very restrictive credit availability. This speaks very well to our strong balance sheet and excellent banking relationships.

In addition to the newly constructed *Algobay*, which arrived back in North America in late December and will go into service with Seaway Marine Transport upon the opening of the Great Lakes-St. Lawrence Waterway in March 2010, the other significant changes to the fleet are as follows:

- In July 2009, the Corporation entered into a long-term bareboat charter arrangement with a Turkish owner for the charter of the 2007 built *Algoma Dartmouth* (formerly *Samistal Due*). This vessel, a 3,500 deadweight product/chemical tanker went into operation as a re-fuelling vessel in the Halifax/Dartmouth harbour area in August 2009. In late December 2009, the Corporation reached an agreement with the Turkish owner to purchase the *Algoma Dartmouth* for U.S. $9.0 million and this transaction was completed on February 1, 2010. With the addition of the this vessel to the Algoma Tanker fleet, the Corporation now owns and operates seven double hulled Canadian flag product tankers. This is the largest and most modern product tanker fleet in this service area.

- On January 6, 2010, the Corporation concluded an arrangement with Seaway Marine Transport for the time charter of the Corporation's three ocean bulkers, the *Algoma Guardian*, *Algoma Spirit*, and *Algoma Discovery*, for a five-year period commencing in 2010. Upon completion of our final obligations to the current charterer and completion of the vessels' regulatory surveys and Canadianization requirements, the ship management activities for these three vessels will be transferred from our foreign subsidiary. Upon their arrival in Canada, which is expected to be in June, September and October respectively, the Seaway Marine Transport time charter arrangement will commence with the vessels being deployed primarily in the grain and iron ore trade.

Over the past several years, one of the Corporation's primary strategic priorities has been to prepare for a significant re-investment in our domestic dry-bulk fleet.

The preparation has involved three major initiatives:

1. To advocate with other industry stakeholders for the removal of the Canada's 25% vessel import duty.
2. Increase our financing capability by establishing relationships with a number of financial institutions.
3. Develop a new vessel design that will be efficient and cost competitive and meet all current and expected future environmental requirements.

We are beginning to see the results of the above efforts.

On October 24, 2009, the Department of Finance of the Government of Canada announced a proposal to waive the payment of the 25% import duty on future imports of tankers, bulkers, self-unloaders, ferries and cargo vessels of a length of 129 metres or more by means of a remission order. Although we are now past the proposed January 1, 2010 effective date, we continue to be confident that this positive government initiative will result in the appropriate Order-in-Council in the near future.

Our recently concluded banking arrangement with a syndicate of six leading financial institutions puts the Corporation in a very strong position to finance a significant new vessel order upon a final decision from the Canadian Government to remove the 25% vessel import duty.

Finally, a joint design team with our Seaway Marine Transport partner was established in early 2009 to develop a new vessel design to meet the future needs of the domestic dry-bulk fleet. This team has been working with a leading and innovative international design firm to produce new vessel specifications for both a seaway-size self-unloader and bulk carrier. We expect the designs to be completed in the first quarter of 2010 after which they will be shown to shipyards around the world for expressions of interest and pricing. All going well, we could expect to see new vessels in Canada by 2012. We are very confident and pleased that all three initiatives appear to be coming together. Fleet renewal is a key initiative and forms the cornerstone of our strategic planning priorities.

In addition to fleet renewal, we continue to focus on sustainability as a main strategic planning area. Sustainability includes Operational Excellence, Environmental Sustainability, Social Responsibility and Governance.

- Operational Excellence addresses quality performance measured by cost control, reduced incidents and minimized non-productive time.
- Environmental Sustainability addresses our impact on the environment mainly through the reduction of emissions to the air and water. We have undertaken proactive initiatives to improve environmental performance through programs such as implementation of "Green Marine", an industry led environmental improvement program, implementation of the ISO 14000 Environmental Management System throughout our fleet, introduction of improved ballast water management programs onboard our vessels and the previously mentioned fleet renewal program which will lead to a significantly reduced environmental footprint from our vessels as a result of the introduction of new technology for treatment and recovery systems.
- Social Responsibility addresses employee health and welfare programs, worker safety practices and community involvement. We have instituted within all business segments, worker safety practices and programs with a goal to achieve zero incidents. Although not yet achieved, we are pleased to note that in 2009 our lost time injury frequency per 200,000 hours worked for all business units combined was reduced by 9% from 2008 results and was reduced by 22% from 2007 results. Our charitable giving program is structured to encourage employee involvement through corporate matching. Our corporate causes are focused mainly on improving the quality of life within the communities that our employees work and live.
- Governance responsibilities are addressed through clear and transparent policies such as the Code of Conduct Policy, Corporate Disclosure Policy, Insider Trading Policy and Whistle Blower Policy. These policies are applicable to all employees and directors of the Corporation.

In addition, our other two strategic priorities, Diversification and Growth, are complementary to Sustainability from the perspective of risk mitigation and the capture of new opportunities. Diversification and Growth will continue to be pursued to improve the probability of our success.

As we try to anticipate what our customers' volume requirements will be for 2010, it is a little easier to be more optimistic than we were a year ago. In 2009, virtually all our business segments were at levels that were well below average and most customers in these segments see 2010 being better than 2009, although there still remains a significant number of external factors that could ultimately impact volume levels in a negative way. That being said, we are cautiously optimistic regarding our 2010 results.

Our dedicated and highly skilled employees continue, in spite of the uncertainty that comes with the difficult economic environment, to demonstrate their commitment to achieving their personal goals and objectives as well as the Corporation's goals while being guided by our shared values of integrity, responsibility, respect, leadership and teamwork. Equally as important, our employees continue to demonstrate their commitment to making our communities a better place to live through their enthusiastic support of the United Way program, two cancer fundraising initiatives, Run for the Cure and Relay for Life as well as their most recent involvement in the Haiti Relief Fund. Words cannot express how proud we are of our employees who continue to strive to make the communities in which we live and work better places for all.

On May 7, 2009, Mr. William (Bill) Corcoran retired from the Board of Directors of the Corporation after serving 18 years as a Director. We wish to thank Bill for his outstanding service and wise counsel to the Corporation and wish him all the best in his future endeavours.

We thank our employees, valued customers and key stakeholders for their contribution toward the Corporation's success in 2009 and wish to express gratitude to our Board of Directors for their strong leadership and guidance during these difficult times.

Greg D. Wight, FCA

President and Chief Executive Officer

Radcliffe R. Latimer

Chairman of the Board

Management's Discussion and Analysis

General

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

This Management's Discussion and Analysis of Algoma Central Corporation should be read in conjunction with its consolidated financial statements for the years ending December 31, 2009 and 2008 and related notes thereto, and has been prepared as at February 17, 2010.

This Management's Discussion and Analysis has been prepared by reference to the disclosure requirement established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on Algoma Central Corporation, including its annual information form, is available on the Corporation's website at www.algonet.com and the SEDAR website at www.sedar.com.

The accounting principles used by Algoma Central Corporation to prepare the financial data contained in this Management's Discussion and Analysis are fully described in the notes to the consolidated financial statements. The reporting currency used is the Canadian dollar unless otherwise noted and all amounts are reported in thousands of dollars except for per share data.

This Management's Discussion and Analysis may include forward-looking statements concerning the future results of the Corporation. These forward-looking statements are based on current expectations. The Corporation cautions that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future results could be affected by a number of factors, many of which are beyond the Corporation's control, including economic circumstances, technological change, weather conditions and the material risks and uncertainties identified by the Corporation and discussed on pages 26 to 29 in this report.

Use of Non-GAAP Measures

The following summarizes non-GAAP financial measures utilized in the Management's Discussion and Analysis. As there is no generally accepted method of calculating these financial measures, they may not be comparable to similar measures reported by other corporations.

Return on capital employed refers to earnings before financial expense and gains or losses on the translation of foreign-denominated assets and liabilities, on an after-tax basis, and expressed as a percentage of average capital. Capital is long-term debt including the current portion plus shareholders' equity. The Corporation uses return on capital employed to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders.

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

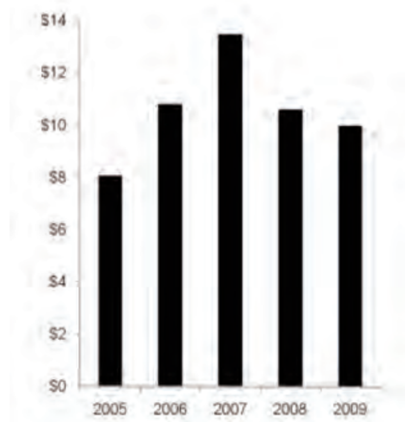
EBITA refers to earnings before interest, taxes and amortization. EBITA is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles. EBITA is not intended to represent cash flow from operations, as defined by Canadian GAAP, and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by GAAP. The Corporation's EBITA may also not be comparable to EBITA used by other corporations, which may be calculated differently. The Corporation considers EBITA to be a meaningful measure to assess its operating performance in addition to GAAP measures. It is included because the Corporation believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business.

Overall Performance

In 2009, the Corporation is reporting net earnings of $38,845 compared to net earnings of $41,280 for 2008. The decrease in earnings of $2,435 was due primarily to reductions in operating earnings net of income tax and an increase in financial expense. These decreases were partially offset with an increase in net foreign exchange gains on the translation of foreign denominated assets and liabilities and a decrease in the income tax expense. Net earnings decreased by 6% in 2009 when compared to 2008.

Earnings Per Share

(IN DOLLARS)



The Domestic Dry-Bulk segment's operating earnings net of income tax in 2009 were $3,230 compared to earnings of $12,797 for the comparable 2008 period. The decrease in earnings was due primarily to fewer operating days of the fleet due to the economic conditions in 2009 and an increase in repair and maintenance costs. These decreases were partially offset by gains on disposal of assets, which consisted primarily of the gain on the insurance proceeds on the loss of the *Algoport*.

The operating earnings net of income tax of the Ocean Shipping segment decreased from $21,135 in 2008 to $15,943 in 2009 due primarily to a reduction in the results of the international commercial arrangement and higher operating costs.

The Real Estate segment operating earnings net of income tax decreased from $5,256 in 2008 to $3,437 in 2009 due primarily to a gain in 2008 on a sale of a property and reduced earnings in 2009 due mainly to the temporary closure for renovations of the hotel operation.

Partially offsetting the above decreases was an increase in the operating earnings net of income tax of the Product Tanker segment. The 2009 operating earnings net of income tax were $8,107 compared to earnings of $6,673 in 2008. This increase was due primarily to costs and out of service days associated with the 2008 planned regulatory dry-docking of the *Algoma Hansa*. This improvement was partially offset with reductions in earnings of the domestic tanker fleet due to an increase in regulatory dry-docking costs. There were two planned dry-dockings in 2009 compared to one in 2008.

Financial expense in 2009 increased to $4,941 from $1,444 in 2008, due primarily to an increase in the cost of borrowings, additional borrowings to finance capital expenditures and costs incurred in 2009 associated with the Corporation's expanded credit facilities.

The net foreign exchange gains on the translation of foreign denominated assets and liabilities were $3,387 compared to a loss of $4,699 in 2008. The gains and losses in both years are related primarily to the translation to Canadian dollars of foreign denominated debt. During 2009, the Canadian dollar strengthened relative to the U.S. dollar after weakening throughout 2008. In addition, in 2008, the Corporation had foreign exchange gains on the translation to Canadian dollars of Euro denominated short-term investments.

The income tax expense in 2009 was $386 compared to $12,308 in 2008. The decrease of $11,922 was due primarily to a reduction in earnings before taxes, a decrease in the Corporation's future income liabilities due to the passing into law in 2009 by the Ontario government future reductions of the income tax rate, and the recognition in 2009 of the income tax benefit of a deduction relating to costs to acquire new pollution control equipment.

Earnings per common share were $9.98 in 2009 compared to $10.61 in 2008. However, there were a number of non-recurring items in 2009, and some non-operational items in both 2009 and 2008, which affected earnings per share. In 2009, earnings per share were increased by $2.96 for the income tax decreases mentioned above, the net gain on the translation of foreign-denominated assets and liabilities, and the net gain realized on the loss of the *Algoport*. In 2008, earnings per share were reduced by $1.01 reflecting the net loss on the translation of foreign denominated assets and liabilities. Excluding these items in both years' results, earnings per share would be $7.02 for 2009 and $11.62 for 2008.

Selected Annual Information

		2009		2008		2007
For year ended December 31						
Revenues	$	**520,147**	$	688,914	$	580,546
Net earnings	$	**38,845**	$	41,280	$	52,443
Earnings per common share	$	**9.98**	$	10.61	$	13.48
At December 31						
Total assets	$	**694,306**	$	706,092	$	533,508
Total long-term financial liabilities	$	**112,953**	$	95,184	$	13,825

Total assets decreased in 2009 by $11,786 despite a significant amount of spending on capital projects in 2009. Capital assets increased in 2009 by $16,506, reflecting additions of $91,318, amortization of $36,103 and a reduction of $33,268 in the net book value of capital assets on the translation of foreign self- sustaining operations to Canadian dollars due to the strengthening of the Canadian dollar.

Capital asset additions during 2009 included $42,282 on deposits made on product tankers under construction, $13,787 on payments for the *Algobay*, $12,472 on deposits for a self-unloading vessel, payments of $8,661 on the *AlgoCanada* primarily for duty on the vessel's entry into Canadian waters, $4,191 on the hotel modernization in Sault Ste. Marie and $5,644 for capital improvements on domestic dry-bulk vessels.

More than offsetting the increase in capital assets was a decrease in current assets due primarily to a decrease in accounts receivable and income taxes recoverable. Accounts receivable were lower at the end of 2009 when compared to 2008 due mostly to reduced business levels and improvements in collections, and income taxes recoverable were lower at December 31, 2009 due to the application of instalments made in 2008 to the Corporation's 2009 income tax liability.

Long-term financial liabilities, which consist of long-term debt including the current portion, increased by $17,769 in 2009 primarily to assist in the financing of capital asset purchases.

Results of Operations

Net earnings for 2009 were $38,845 as compared to $41,280 for 2008. Net earnings by segment are as follows:

	2009	2008
Operating earnings net of income tax		
Domestic Dry-Bulk	$ (1,949)	$ 20,108
Loss (earnings) of non-controlling interest - *(Note 1)*	2,622	(7,311)
Gain on insurance proceeds on loss of *Algoport*	2,557	-
	3,230	12,797
Product Tankers	8,107	6,673
Ocean Shipping	15,943	21,135
Real Estate	3,437	5,256
	30,717	45,861
Not specifically identifiable to segments		
Net gain (loss) on translation of foreign-denominated monetary assets and liabilities	3,387	(4,699)
Financial expense	(4,941)	(1,444)
Income tax	9,682	1,562
	$ 38,845	$ 41,280

The Corporation's discussion and analysis of the results of operations for the year ended December 31, 2009 compared to 2008 is contained in the Overall Performance section commencing on page 9. Additional information on certain line items from the earnings statement follows:

Revenues

Revenue by business segment is as follows:

	2009	2008
Domestic Dry-Bulk	$ 326,015	$ 487,751
Product Tankers	75,466	78,848
Ocean Shipping	92,620	97,924
Real Estate	26,046	24,391
	$ 520,147	$ 688,914

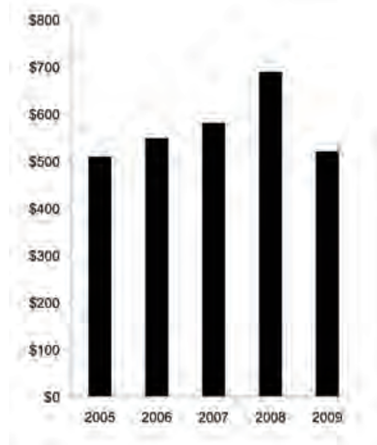
The decrease in revenue for the Domestic Dry-Bulk segment for 2009 when compared to 2008 was due primarily to a decrease in operating days largely due to a weaker demand for coal used for power generation, iron ore for steel producers and reduced demand for aggregate products and construction materials. In addition, revenue decreases were experienced due to reduced fuel surcharges paid by customers.

The Product Tankers segment decrease in revenue for 2009 when compared to 2008 was due primarily to reduced demand and reduced fuel surcharges paid by customers.

The decrease in Ocean Shipping segment revenue for 2009 when compared to 2008 was due primarily to reduced demand of the international commercial arrangement and a decrease in fuel surcharges paid by customers. These decreases were partially offset by additional revenue from the three ocean-going geared bulk carriers, which were acquired during the second quarter of 2008.

Revenue

(IN MILLIONS)



The increase in revenue for the Real Estate segment was due primarily to the hotel property in Sault Ste. Marie that the Corporation assumed operating control of in early 2009. Prior to February 1, 2009, revenue from the hotel property consisted of rental revenue from the tenant, whereas after February 1, 2009, the Corporation operated the hotel directly which increases both revenues and operating expenses.

Operating Expenses

The operating expenses by business segment are as follows:

		2009		2008
Domestic Dry-Bulk	$	**293,135**	$	423,638
Product Tankers		**47,570**		55,832
Ocean Shipping		**64,575**		67,854
Real Estate		**14,701**		10,969
	$	**419,981**	$	558,293

The decrease in operating expenses of the Domestic Dry-Bulk segment for 2009 when compared to 2008 was due largely to a decrease in operating days due to the economic conditions, lower fuel prices and lower outside charter expense. These decreases were partially offset by an increase in repair and maintenance costs.

The decrease in operating expenses of the Product Tankers segment for 2009 when compared to 2008 was due largely to a decrease in fuel costs and the 2008 planned regulatory dry-docking of the *Algoma Hansa*.

The Ocean Shipping segment decrease in operating expenses for 2009 when compared to 2008 was due primarily to lower costs of fuel partially offset with increased costs related to the planned regulatory dry-dockings and the operating expenses associated with three ocean-going geared bulk carriers that were acquired in the second quarter of 2008.

The increase in operating expenses of the Real Estate segment was due primarily to costs related to the operations of the hotel property in Sault Ste. Marie, which the Corporation assumed control of in early 2009 and a decrease in gains on sale of assets.

General and Administrative

General and administrative expenses for 2009 increased by $1,654 over 2008. The increase was due primarily to additional employee compensation costs, higher pension expense due to lower pension asset values and an increase in information technology costs for remote hosting to ensure business continuity.

Amortization

Amortization expense on capital assets was $36,103 for the year ended December 31, 2009 compared to $34,221 in 2008. The increase in amortization was due primarily to the addition of the *Algonova* and *AlgoCanada* in late 2008 and three ocean-going geared bulk carriers that were acquired in the second quarter of 2008.

Financial Expense

Financial expense for 2009 when compared to 2008 increased by $3,497 due primarily to an increase in the cost of borrowings, additional borrowings to assist in the financing of capital expenditures and amortization of financing fees incurred in 2009 that were associated with the Corporation's expanded credit facilities.

Net Gain (Loss) on Translation of Foreign Assets and Liabilities

The net gain (loss) on translation of foreign denominated assets and liabilities for 2009 and 2008 consists of the following:

	2009	2008
Gain (loss) on U.S. long-term debt	$ **3,866**	$ (6,620)
Gain on Euro cash deposits	**-**	3,021
Realized gain (loss) on return of capital from foreign subsidiaries	**313**	(2,269)
Other	**(792)**	1,169
	$ **3,387**	$ (4,699)

The gains and losses on the U.S. denominated debt are related to the translation to Canadian dollars of the foreign denominated debt. At December 31, 2009 and 2008, the Corporation had U.S. debt of $42,180 and $24,000 respectively. The gains in 2009 were due to the strengthening of the Canadian dollar against the U.S. dollar and in 2008, losses were incurred due to weakening of the Canadian dollar.

The gain on the Euro denominated cash deposits in 2008 relates to the fluctuation of the Canadian dollar on the translation to Canadian dollars of short-term Euro deposits. The Corporation entered into two Euro foreign exchange contracts to manage the foreign exchange exposure related to two product tankers that were being constructed in Turkey. The contracts matured during the first half of 2008 however, the payments to the shipyard were not made on delivery of the contracts due to the delay in the delivery of the vessels. The Corporation invested the Euros it purchased in short-term cash deposits until the payments to the shipyard were due.

The realized gain and loss on the return of capital from foreign subsidiaries relates to the gains and losses on foreign exchange on cash returned to the Corporation from its self-sustaining foreign operations.

Income Tax Provision

The income tax provision was $386 for the year ended December 31, 2009 compared to $12,308 in 2008. Included in the 2009 income tax expense was a decrease of $4,741 relating to the reduction in the Corporation's future tax liabilities as a result of the passing into law by the Ontario government in 2009 to reduce the corporate income tax rate. Also included in 2009 was a decrease of $1,386 in income tax expense due to a deduction relating to costs incurred by the Corporation on pollution control equipment.

Excluding these adjustments in 2009, the income tax provision for 2009 would have been $6,513, a decrease of $5,795 from the 2008 amount of $12,308. This decrease in income tax expense is attributable to a reduction in earnings before income taxes and non- controlling interest offset partially by the increase in the net gain on the translation of foreign denominated assets and liabilities.

The effective income tax rate for 2009 excluding the two items mentioned above was 19.1% compared to an effective income rate of 19.4% in 2008. The Canadian statutory rate for the Corporation for 2009 and 2008 was 33.0% and 33.5 % respectively. The variation in the effective income tax rate from the statutory income tax rate in 2009 and 2008 was due primarily to lower income tax rates of certain foreign subsidiaries.

Non-Controlling Interest

The domestic dry-bulk fleet operates primarily through the Seaway Marine Transport partnership, which is fully consolidated as a variable interest entity in the Corporation's consolidated financial statements. The operational and commercial activities of the domestic dry-bulk fleet are combined in the partnership with those of another unrelated Canadian ship owner.

The loss of the non-controlling interest in the amount $5,178 for the year ended December 31, 2009 compared to earnings of $9,867 in 2008 represents the other partner's proportionate share of earnings or loss in the Seaway Marine Transport partnership.

Comprehensive Earnings

Comprehensive earnings are composed of the Corporation's net earnings and other comprehensive earnings or losses. Other comprehensive earnings or losses of the Corporation includes unrealized gains and losses on the foreign currency translation of the net investment in self-sustaining operations and changes in the fair market value of the interest rate swap agreements the Corporation utilizes on certain debt instruments to manage risks associated with interest rate movements.

As of December 31, 2009, the Corporation had in its Shareholders' Equity an "Accumulated Other Comprehensive Loss" balance of $10,979 compared to earnings of $21,111 at December 31, 2008. The Accumulated Other Comprehensive (Loss) Earnings balance consists of the unrealized gains or losses on translation of financial statements of foreign self-sustaining operations and the net unrealized losses on hedging instruments.

The decrease in comprehensive earnings in 2009 compared to 2008 was due primarily to unrealized losses in the year on the translation of the net investment in foreign self-sustaining operations as a result of the strengthening of the Canadian dollar against the U.S. dollar. In 2008, the Canadian dollar weakened against the U.S. dollar resulting in unrealized gains. At December 31, 2009 and 2008, 35% and 34% respectively of the Corporation's total assets are related to the Corporation's net investment in foreign self-sustaining operations and are denominated in U.S. dollars.

The unrealized losses at December 31, 2009 would be reversed with a weakening of the Canadian dollar against the U.S. dollar. The losses at December 31, 2009 will only be realized if a foreign self-sustaining subsidiary is disposed of or U.S. cash is returned to Canada as a return of the remaining Corporation's net investment in foreign subsidiaries.

Financial Condition, Liquidity and Capital Resources

Statement of Cash Flows

	2009	2008	Decrease
Net earnings	$ 38,845	$ 41,280	$ 2,435
Cash provided from operations before changes in working capital	$ 57,872	$ 94,374	$ 36,502
Cash provided from operations after changes in working capital	$ 60,336	$ 89,975	$ 29,639
Cash used in investing activities	$ 82,071	$ 167,796	$ 85,725
Cash provided from financing activities	$ 21,863	$ 59,567	$ 37,704

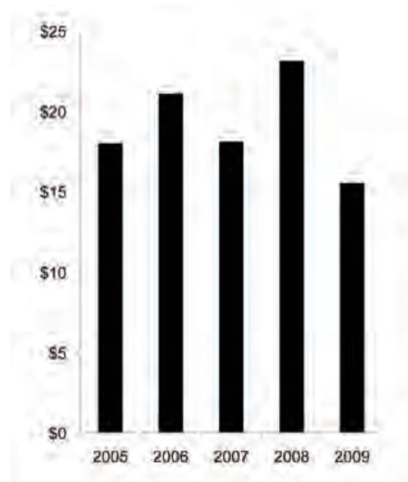
Cash Provided from Operating Activities

Cash provided from operations in 2009 was $60,336 compared to $89,975 in 2008. The decrease in cash flow in 2009 when compared to 2008 of $29,639 was due primarily to a reduction in cash from operations. The Domestic Dry-Bulk, Real Estate and Ocean Shipping segments all experienced decreases in cash from operations with the Domestic Dry-Bulk having the most significant decrease. Partially offsetting these decreases was an increase in cash from operations of the Product Tanker segment.

Working capital consumed less cash in 2009 due to an improvement in cash from accounts receivable of $15,775 primarily because of improved collections in 2009 of the Domestic Dry-Bulk segment. This increase in cash realized from account receivable was partially offset by decreases in income taxes recoverable resulting from overpayments in 2008 transferred to the 2009 account, and a reduction in accounts payable and accrued charges due to reduced activity in December 2009 compared to December 2008.

Cash Flow from Operations per Share

(IN DOLLARS)



Cash Used in Investing Activities

Cash used in investing activities decreased from $167,796 in 2008 to $82,071 in 2009 due mainly to a reduction in additions to capital assets.

In 2009, capital asset additions were $90,711 and included the following:

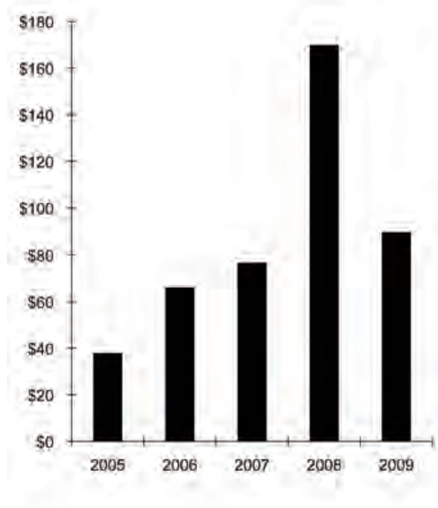
- Payments on the two seaway size self-unloading forebodies of $26,259.
- Deposits on the five new product tankers under construction of $42,282.
- Expenditures for domestic dry-bulk vessels of $5,644, consisting primarily of generator replacements.
- Payments for the *AlgoCanada* of $8,661, consisting primarily of the duty, which was due on the vessel's entry in Canada.
- Hotel modernization improvements of $4,191.

In 2008, significant additions to capital assets included:

- Payments on the *Algonova* of $40,593 and the *AlgoCanada* of $31,830.
- The purchase of three ocean geared bulk carriers in the amount of $39,441.
- Expenditures for domestic dry-bulk vessels including life extension improvements on the *John B. Aird* and *Algolake* in the amount of $4,876, generator replacements and a spare engine in the amount of $8,706.
- Deposits on the five new product tankers in the amount of $23,814.
- Payments on the two maximum seaway size self-unloading forebodies of $13,255.

Capital Asset Additions

(IN MILLIONS)



Cash Provided by or Used in Financing Activities

Cash provided from financing activities in 2009 was $21,863 compared to cash provided of $59,567 for 2008.

Cash from financing activities in 2009 and 2008 consisted primarily of proceeds from long-term debt to assist with the financing of capital asset purchases and dividends to shareholders. For the twelve months ended December 31, 2009, the Corporation received $27,135 in net proceeds from long-term debt compared to $79,489 for the similar period in 2008.

Repayments on long-term debt in 2009 and 2008 were $5,500 and $4,750 representing the required instalments on the Corporation's two term bank loans.

Dividends were paid in both years to shareholders at a rate of $1.80 in 2009 and $1.70 in 2008 per common share, totalling $6,835 in 2009 and $6,455 in 2008.

Capital Resources

The Corporation manages its capital to ensure that there are adequate capital resources to safeguard the Corporation's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of long-term debt and shareholders' equity comprising of share capital and retained earnings. The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in business environment.

Cash and cash equivalents on hand at December 31, 2009 of $12,156, existing credit facilities and expected cash from operations should exceed the Corporation's planned operating and capital requirements and other contractual obligations for 2010.

Contingencies

For information on contingencies, please refer to Note 19 of the consolidated financial statements.

Transactions with Related Parties

There were no transactions with related parties in 2009 or 2008.

Fourth Quarter 2009

The Corporation is reporting net earnings for the three months ended December 31, 2009 of $23,169 compared to $16,832 for the same period in 2008. This increase in net earnings of $6,337 was due primarily to the following:

- Decreases in earnings of Ocean Shipping segment due primarily to fewer operating days because of a vessel dry-docking.
- Increase in earnings of the Product Tanker segment due primarily to an increase in operating days.
- Increase in net foreign exchange gains of $3,162 resulting primarily from gains on the translation to Canadian dollars of U.S. dollar denominated debt due to the strengthening of the Canadian dollar.
- A reduction of income tax expense in 2009 of $6,127 due primarily to a reduction in the Corporation's future tax liabilities from the passing into law by the Ontario government in 2009, a reduction in the corporate income tax rate, and a special deduction relating to costs incurred on pollution control equipment.

Refer to the Corporation's news release announcing fourth quarter results dated February 17, 2010, which can be accessed, from the SEDAR website at www.sedar.com or the Corporation's website at www.algonet.com.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 2 to the consolidated financial statements. Some of these accounting policies require management to make estimates and assumptions about matters that are uncertain at the time the estimates and assumptions are made. Management believes that the estimates are reasonable; however, different estimates could potentially have a material impact on the Corporation's financial position or results of operations.

Employee Future Benefits

The Corporation provides pensions and post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. Those assumptions are disclosed in Note 11 to the Corporation's consolidated financial statements, the most significant of which are the discount rate, the rate of increase of 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. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in accounting gains or losses as disclosed in Note 11 to the consolidated financial statements. The significant accounting assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Corporation's employee benefit obligations and future expense.

Capital Assets

The Corporation reviews on a regular basis the amortization periods of capital assets for changes in estimated useful lives. The Corporation reviews for impairment whenever indications exist and at a minimum on an annual basis whether there are any signs of impairment in accordance with the Corporation's accounting policy.

Change in Accounting Policies

Goodwill and Intangible Assets

On January 1, 2009 the Corporation adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets (Section 3064). Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The CICA's Emerging Issues Committee (EIC) Abstract No. 27, Revenues and Expenditures during the Pre-operating Period, is no longer applicable once Section 3064 has been adopted. These new standards had no material impact on the Corporation's financial position or results of operations.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Emerging Issues Committee (EIC) issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and the credit risk of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which was effective on January 1, 2009, has no material impact on the Corporation's financial position or results of operations.

Fair Value and Liquidity Risk Disclosure – Amendments to Financial Instruments – Disclosures, Section 3862

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments have no impact on the Corporation's financial position or results of operations.

Change in Accounting Estimates

Employee Future Benefits

The Corporation provides pension and other post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. The most significant are the discount rate, the rate of increase of compensation, expected rates of return on plan assets and the rate of increase in the cost of health care.

The assumptions are reviewed annually and the impact of any changes in the assumptions is disclosed in Note 11 to the consolidated financial statements for the years ending December 31, 2009 and 2008.

Effective December 31, 2008 the Corporation changed its assumptions on the discount rate from 5.5% to 7.3%. The 7.3% rate was used throughout 2009 for purposes of computing the net benefit cost incurred. Effective December 31, 2007 the Corporation changed the discount rate to 5.0% from 5.5% The rate was used throughout 2008 for purposes of computing the net benefit cost incurred.

At December 31, 2009 and 2008 the Corporation changed the discount rate from 7.3% to 6.4%. and from 5.5% to 7.3%, respectively. The revised rates were used for purposes of calculating the accrued benefit obligation at December 31.

The adoption of these new assumptions has had the following effect on the consolidated financial statements.

		2009		2008
Increase (decrease) in accrued benefit obligation	$	**9,834**	$	(20,237)
(Decrease) increase in unamortized amounts	$	**(9,834)**	$	20,065
Increase in net earnings	$	**-**	$	172

Future Accounting Changes

1. Business Combinations and Non-Controlling Interests

In January 2009, the Canadian Accounting Standard Boards ("AcSB") issued Section 1582 Business Combinations, Section 1601 Consolidations and Section 1602 Non-Controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to International Financial Reporting Standards (IFRS) 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective for fiscal years beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the above new standards on its consolidated financial statements.

2. International Financial Reporting Standards

The CICA exposure draft "Adopting IFRSs in Canada" proposes to incorporate International Financial Reporting Standards ("IFRS") into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The exposure draft makes possible the early adoption of IFRS by Canadian entities.

The Corporation has commenced the process to transition from current Canadian GAAP to IFRS. It has established a project team that is led by finance management and will include representatives from various areas of the Corporation as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

The implementation of IFRS consists of three primary phases as follows:

- Scoping and diagnostic phase. This phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. As a result of these procedures, the potentially affected areas are ranked as high, medium or low priority.

- Impact analysis, evaluation and design phase. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.

- Implementation and review phase. This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Corporation's finance group and other staff, as necessary.

The Corporation's preliminary analysis of IFRS and comparison with Canadian GAAP has identified a number of differences. Many of the differences identified will not have a material impact on the reported results and financial position. However, there may be significant changes in certain areas following the implementation of IFRS accounting principles.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings on the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated and are applied prospectively will only be made as of the first day of the year of adoption.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Corporation is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the Corporation's circumstances.

Set out below are the key areas where changes in accounting policies are expected that may impact the Corporation's consolidated financial statements. The list and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas we believe to be most significant, however, analysis of changes is still in process and not all decisions have been made where choices of accounting policies are available. The differences described below are those existing based on Canadian GAAP and IFRS today. At this stage, the Corporation has not quantified the impacts expected on its consolidated financial statements for these differences.

a. Property Plant and Equipment

International Accounting Standard (IAS) 16, "Property, Plant and Equipment" defines property, plant and equipment as tangible items that are held for use in the production or supply of goods and services, for rental to others, and are expected to be used during more than one period. This definition differs from Canadian GAAP in that it does not include real estate investment property, which under IFRS is included in Investment Property.

IFRS and Canadian GAAP contain the same basic principle for property plant and equipment, however there are some differences. IFRS requires that major components of an asset be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property, plant and equipment to be measured at fair value or at amortized cost.

IFRS 1 contains an elective exemption where the Corporation may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition.

b. Investment Property

IAS 40, "Investment Property" defines investment property as land or a building, or part of a building, or both, as property held to earn rentals or for capital appreciation or both. The Corporation's real estate assets are considered Investment Property under IFRS.

IAS 40 offers options for measurement of investment property after initial recognition, the cost model or the fair value model.

IFRS 1 contains an elective exemption where the Corporation may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition.

c. Impairment of Assets

Canadian GAAP impairment testing compares the asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable, the carrying values are written down to estimated fair value.

IAS 36, "Impairment of Assets", uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have reduced. Canadian GAAP prohibits reversal of impairment losses.

d. Employee Benefits

IAS 19, "Employee Benefits", requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight line basis until the benefits become vested.

Under Canadian GAAP, past service costs are generally amortized on a straight-line basis over the expected average remaining service period of active employees in the plan. In addition, actuarial gains and losses are permitted under IAS 19 to be recognized directly in equity rather than through profit or loss. IFRS 1, "First-Time Adoption of International Financial Reporting Standards", also provides an option to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings.

e. Provisions, Contingent Liabilities and Contingent Assets

IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", requires a provision to be recognized when:

- there is a present obligation as a result of a past transaction or event;
- it is probable that an outflow of resources will be required to settle the obligation; and,
- a reliable estimate can be made of the obligation.

"Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities, which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.

f. Interests in Joint Ventures

IAS 31 “Joint Ventures” currently permits the proportionate consolidation or the equity method to account for interests in joint ventures. However, there is an IFRS exposure draft that is recommending only the equity method be permitted for accounting for joint ventures. The exposure draft prohibits the use of proportionate consolidation.

If the recommendations of the exposure draft are adopted as expected then the Corporation may be required to account for the joint ventures it has an interest in using the equity method rather than proportionate consolidation.

Summary of the IFRS Changeover Plan

The plan addresses the impact of IFRS on accounting policies and implementation decisions, infrastructure, business activities and control activities. A summary of the key elements of the changeover plan is as follows:

	Key Activities	Status
Accounting policies and implementation decisions	Identification of differences in Canadian GAAP and IFRS accounting policies. Selection of the Corporation's ongoing IFRS policies. Selection of the Corporation's IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). Development of financial statement format. Quantification of effects of change in initial IFRS 1 disclosures and 2010 financial statements.	The Corporation has identified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion, made in accordance with IFRS 1. The Corporation will continue to progress towards the quantification of the identified differences and choices throughout 2010.
Infrastructure Financial reporting expertise	Development of IFRS expertise	The Corporation has provided training for key employees and stakeholders. Additional training will be ongoing until full adoption in 2011.
Infrastructure Information technology and data systems	Development of systems for transition period and post-convergence period.	The Corporation's preliminary analysis has determined system requirements with respect to information technology and data systems is not significant and will be implemented once policy choices have been made.

	Key Activities	Status
Business activities Financial covenants	Identification of impact on financial covenants and business practices.	The Corporation is in the process of analyzing the contractual implications of IFRS on any financing relationships and other arrangements.
Business activities Compensation arrangements	Identification of impact on compensation arrangements. Assessment of required changes by the third quarter of 2010.	The Corporation is in the process of analyzing any compensation policies that rely on indicators derived from the financial statements.
Control activities Internal control over financial reporting	For all accounting policy changes identified, assessment of Internal Controls over Financial Reporting ("ICFR") design and effectiveness implications. Implementation of appropriate changes by the third quarter of 2010.	The Corporation is in the process of analyzing any issues with respect to ICFR.
Control activities Disclosure controls and procedures	For all accounting policy changes identified, assessment of Disclosure Control and Procedures ("DC&P") design and effectiveness implications. Implementation of appropriate changes by the third quarter of 2010.	The Corporation is in the process of analyzing any issues with respect to DC&P.

Internal Controls and Disclosure Controls over Financial Reporting

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Corporation's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), have evaluated the operating effectiveness of the Corporation's internal controls over financial reporting. Under the supervision of and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management assessed the effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2009. Based on this assessment, the CEO and CFO have concluded that the Corporation's internal controls over financial reporting are operating effectively as of December 31, 2009.

Management determined that there were no material weaknesses in the Corporation's internal controls over financial reporting as of December 31, 2009. There have been no changes in the Corporation's internal controls over financial reporting during the year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting.

The Corporation completed in 2009 a three-phase project to replace its legacy payroll, human resources, general ledger and associated systems. The new systems were developed to streamline process flows, enhance period end closing procedures and consolidated financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is reported to the CEO and CFO on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the financial year ended December 31, 2009, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was carried out under the supervision of and with the participation of the CEO and CFO in accordance with National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings. Based on that evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2009, to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.

Derivative Financial Instruments

The Corporation utilizes interest rate swap agreements on its debt instruments to manage risks associated with interest rate movements. At December 31, 2009 and 2008, the interest rate swap agreements had a negative fair value of $2,156 and $3,514 respectively. The amounts have been recorded on the financial statements in accordance with the Corporation's hedge accounting policy.

In addition to the interest rate swap agreements, the Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under shipbuilding contracts with foreign shipbuilders for vessels that will join our domestic dry-bulk fleet.

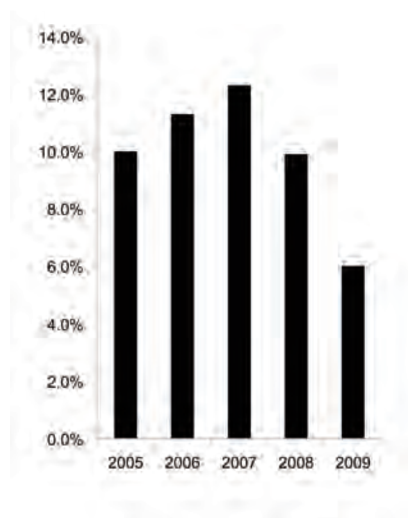
Return on Capital Employed

The Corporation uses Return on Capital Employed (ROCE) to measure how effectively management utilizes the capital it has been provided and the value that has been created for shareholders.

The Corporation defines ROCE as earnings before financial expense and gains or losses on the translation of foreign-denominated assets and liabilities, on an after-tax basis, and expressed as a percentage of average capital. Capital is long-term debt including the current portion plus shareholders' equity.

The ROCE in 2009 decreased to 6.0% from 9.9% in 2008 primarily as a result of reduced earnings and an increase in capital relating to progress payments on capital assets under construction and not yet in service.

Return on Capital Employed



Summary of Quarterly Results

The results for the last eight quarters are as follows with amounts in thousands of dollars except per share figures:

Year	Quarter	Revenue	Net earnings (loss)	Earnings (loss) per share
2009	Quarter 4	$ 167,059	$ 23,169	$ 5.95
	Quarter 3	$ 151,454	$ 20,620	$ 5.30
	Quarter 2	$ 141,199	$ 13,509	$ 3.47
	Quarter 1	$ 60,435	$ (18,453)	$ (4.74)
2008	Quarter 4	$ 196,402	$ 16,832	$ 4.33
	Quarter 3	$ 226,836	$ 18,523	$ 4.76
	Quarter 2	$ 196,969	$ 14,196	$ 3.65
	Quarter 1	$ 68,707	$ (8,271)	$ (2.13)

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

With the exception of the significant repair and maintenance costs incurred in the first quarter, the fluctuations and seasonality of the quarterly earnings has become less of a factor in recent years due to the Product Tanker and Ocean Shipping segments operating year round, a somewhat longer season for the Domestic Dry-Bulk fleet and the increase in our Real Estate segment.

Contractual Obligations

The table below provides aggregate information about the Corporation's contractual obligations at December 31, 2009, which affects the Corporation's liquidity and capital resource needs. The Corporation's contractual obligations primarily include the repayment of long-term debt and capital asset commitments.

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Repayment of long-term debt	$ 6,000	$ 93,001	$ 12,000	$ 7,500	$ 118,501
Capital asset commitments	83,335	63,222	-	-	146,557
Other commitments	250	500	500	1,250	2,500
	$ 89,585	$ 156,723	$ 12,500	$ 8,750	$ 267,558

The capital asset commitments included above consist primarily of:

- Construction of three 16,500 deadweight petroleum product tankers at Jiangxi Jiangzhou Union Shipbuilding Ltd. in China. These vessels are expected to be delivered in early to mid 2011 and have remaining commitments of approximately $61,654.

- Construction of one maximum Seaway sized self-unloading vessel at Chengxi Shipyard in China. The Corporation's share of the remaining commitments for this vessel, which is expected to be delivered in January 2011, is approximately $16,374.
- Construction of two 25,000 deadweight petroleum product tankers at Nangtong Mingde Shipyard in China. These vessels are expected to be delivered in early to mid 2011 and have remaining commitments of approximately $57,349.
- Purchase of a product tanker for $8,928. This transaction was completed on February 1, 2010.

Risks and Uncertainties

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

Shipboard Personnel

Due to the economic conditions experienced in 2009, the availability of crew for vessels was eclipsed by the short-term challenge of retaining skilled crews in a difficult economic climate. Notwithstanding the events of 2009, the long-term concern remains that the marine industry will continue to need skilled personnel. There are a limited number of training schools available to the industry and the industry faces competition from other sectors to attract and retain good employees. A lack of shipboard staff could lead to service delays and outages. The Corporation is working with the industry and educators to enhance training programs to ensure an adequate supply of labour will be available to meet its future needs. This group has been actively involved in building the business case for a Marine Sector Council through Human Resources and Skill Development Canada (HRSDC) to address the long-term human resources challenges facing the industry.

Unions

A majority of the crew on each of the Corporation's domestic vessels belong to a union. Collective agreements are in good standing with each of the unions the Corporation is associated with. Certain employees of the ship repair business are employed under a collective agreement expiring May 31, 2012. The collective agreements expire July 31, 2010 for the domestic product tanker group and May 31, 2011 for the domestic dry-bulk fleet. Failure to enter into new collective agreements with each of the unions representing its workers could result in service outages. The Corporation believes it has strong relations with each union representing its workers and does not expect service interruptions. In 2009, the Captains and Chief Engineers of the Corporation's dry-bulk fleet filed an application to be recognized as a union group. The Corporation has opposed this application and a hearing to discuss the matter before the Canadian Industrial Relations board occurred in February 2010.

Partnering

The Corporation operates a significant portion of its capital assets jointly with third parties. Partnerships are seen by the Corporation as an effective tool to expand the business on a global basis. The expanded service capacity a partnership can offer provides additional stability and flexibility to its customer base. The success of its partnerships depends on the on-going cooperation and liquidity of its partners. The Corporation believes it has chosen partners who have similar goals and values and the financial strength to execute the strategies set out by each of the partnerships.

Outsourcing

The Corporation contracts certain of its technical ship management activities to third parties. The selection of the proper service providers is important to ensure the Corporation's high performance standards are applied consistently. Agents not performing to the expectations of the Corporation could have a significant impact on the reputation and financial results of the Corporation. The Corporation takes great care in ensuring the performance of parties selected to perform outsourced services on its behalf match its high quality standards. Currently the Corporation deals with three of the largest ship management companies in the world.

Service Failure

The Corporation's customers demand a high standard of operational excellence in order to ensure timely and safe delivery of their cargos. Incomplete or non-performance of services could expose the Corporation to customer complaints, penalties, litigation or loss of reputation. Failure to manage its fleet maintenance and capital improvements could impact the ability to generate revenue. The Corporation maintains stringent operational and maintenance plans to ensure assets perform to their maximum capability, and "Operational Excellence" is a high priority for each business unit.

Health and Safety

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

Capital Assets

The non-performance of a shipyard to complete the construction of a vessel under development would impact on the Corporation's ability to replace existing assets and expand the business. The Corporation has remaining commitments of approximately $138 million for the construction of six new vessels with delivery dates currently estimated to extend to September 2011. These vessels are important to the modernization and service capacity of its fleet and to the business strategy of the Corporation. The shipbuilders have been carefully selected and a knowledgeable supervision team is in place at each shipyard to ensure successful completion. In addition, the Corporation receives refund guarantees from the shipyards' bankers for instalments made by the Corporation.

A significant portion of the funding for the capital additions will come from internally generated cash flows, but due to the magnitude of the commitments, additional financing will be required. The Corporation has secured a credit facility expiring in November 2011 with a syndicate of six leading banks that will meet the cash requirements for its existing commitments. Upon maturity of the facility, the Corporation will work with its existing lenders as well as exploring alternative lending arrangements to ensure sufficient funds are available to meet its on-going needs.

Competitive Markets

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

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

The Corporation believes the effect on earnings due to inflation or specific price changes will be immaterial.

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

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

Environmental

The Corporation is focused on the protection of the environment throughout its operations. Environmental protection is a dominant topic on the world legislative agenda. A change in legislation could have a significant impact on the Corporation's future operations and profitability. Environmental issues such as aquatic invasive species, pollutant air emissions (SOx and NOx), greenhouse gases, cargo residue and other recycled water are being scrutinized worldwide.

Certain jurisdictions have created Emission Control Areas (ECA) that governs vessel emissions and fuel quality requirements. Canada and the U.S. have submitted a joint request to the International Maritime Organization (IMO) to establish a North American ECA. This proposal did not include internal waters such as the Great Lakes – St. Lawrence Waterway. However, the U.S. Environmental Protection Agency has indicated its intention to publish an official rule to implement a North American ECA in late February 2010 that will include internal waters. This rule if implemented could come into force as early as August 2012. The rule seeks to limit the sulphur content of fuels used in vessels operating within the ECA to 1% through 2015 and 0.10% from 2016 onward. The Corporation's vessels are capable of using lower sulphur fuels although the cost and availability of low sulphur fuels may be a risk.

Several U.S. states have imposed restrictions on the discharge of ballast water and have introduced requirements to add ballast water treatment facilities onboard vessels. Differences between individual state future requirements and inconsistency between some of these requirements and the current state of ballast treatment technologies result in an uncertain operating environment.

The domestic product tanker fleet completed its ISO 14001 Environmental Management System certification in addition to its current compliance with International Safety Management Code and ISO 9001 Quality Management Systems. The domestic dry-bulk fleet is in the process of implementing ISO 14001. Implementation is expected in 2010. The Corporation's business segments are all in compliance with all applicable environmental laws and regulations. Domestically the Corporation is a member of the industry's "Green Marine" initiative to communicate and demonstrate its commitment to playing a leading role in environmental management. Participants are required to implement specific best practices that will reduce the impact on the environment of their business activities. The results will be communicated annually to the general public.

Marine transportation remains the most environmentally friendly method for the transportation of large quantities of bulk commodities.

Regulatory

A change in governmental policy could impact the ability to transport certain cargos. A policy change could threaten the Corporation's competitive position and its capacity to efficiently offer programs or services. Often several different jurisdictions are able to exercise authority over marine transportation and vessel operations. For example, within the Great Lakes – St. Lawrence Waterway there are eight U.S. state governments and two Canadian provincial governments plus both federal governments. The Corporation expects sufficient warning of a policy change providing it time to adjust and minimize the impact on the organization. Any such regulatory change would have a similar impact on our waterborne competitors.

Corporation employees participate in a number of industry associations that advise and provide feedback on potential regulatory change to ensure current knowledge of the regulatory environment.

Water Levels

The Corporation's domestic dry-bulk vessels and product tankers operate primarily in the Great Lakes and the St. Lawrence Seaway. Declining water levels in ports which the vessels load and unload have the effect of reducing cargo sizes and therefore reducing the profitability of these vessels. Following a number of years of declining water levels, most of the Great Lakes showed a slow recovery over the last two years. Although not an exact science, it is generally thought that global warming may have a negative effect on Great Lakes water depths.

Further drops in water levels in the Great Lakes and the St. Lawrence Seaway, which the Corporation has no control over, could have a significant impact on the future operations and profitability of the domestic dry-bulk vessels and product tankers.

The geographic diversity of the Corporation helps to mitigate the potential impact that could result from adverse affects due to lowering water levels and, in addition, a significant number of the domestic dry-bulk and product tanker customer contracts have freight rate adjustment clauses that provide financial protection for decreasing water levels.

Catastrophic Loss

A major disaster could impact the Corporation's ability to sustain certain operations and provide essential programs and services. The Corporation's assets may be subject to factors external to its control. The Corporation has emergency response and security plans for each fleet and vessel that are tested annually in accordance with statutory requirements. The Corporation maintains comprehensive insurance coverage on its assets and assesses the adequacy of this coverage annually. A business continuity plan is under development for implementation in 2010.

Foreign Exchange

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

The Corporation has significant commitments due for payment in both U.S. dollars and in Euros. The Corporation mitigates the risk associated with the U.S. dollar payments principally through U.S. dollar cash inflows and foreign-denominated debt. The risk associated with the payments due in Euros is largely mitigated through foreign exchange forward contracts.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation is exposed to credit risk from its customers. The Corporation believes that the credit risk for accounts receivable is limited due to the tight credit terms given to customers, minimal bad debts experience and a customer base that consists of a relatively few large industrial concerns in diverse industries and quasi-governmental agencies. Credit reviews are performed on an on-going basis.

Pension Plans

Economic conditions may prevent the Corporation from realizing sufficient investment returns to fund the defined benefit pension plans at existing levels. Any resulting increase in the funding requirements for the Corporation's defined benefit pension plans, although a use of resources is not expected to have a material impact on its cash flows.

Domestic Dry-Bulk

The Domestic Dry-Bulk segment includes the activities of the Corporation's Canadian dry-bulk vessels, our interest in one U.S. flag tug and barge unit and our ship repair and marine engineering business.

The commercial and vessel operating functions required for the Corporation's Canadian flag dry-bulk cargo vessels, which includes thirteen self-unloading and five bulk carriers, are managed by Seaway Marine Transport (SMT). SMT's responsibilities include marketing and sales, vessel traffic, vessel operations management, purchasing, accounting and administrative functions for the Corporation's dry-bulk vessels. The Corporation maintains the responsibility to provide crew for these vessels. SMT also has a 25% interest in Laken Shipping Corporation (Laken), a U.S. company that owns a U.S. flag 5,000 HP tug and 10,200 net ton capacity self-unloading barge. A wholly owned subsidiary of SMT, called SMT (USA), time charters the tug and barge from Laken and commercially manages them.

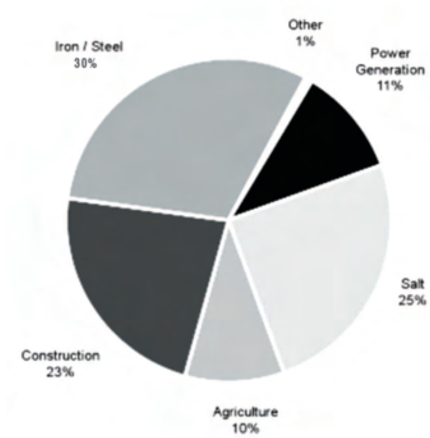
SMT is based in St. Catharines, Ontario and has a sales and customer service office in Winnipeg, Manitoba. SMT (USA) Inc. has an office in Cleveland, Ohio. In addition to its primary activities concerning vessels owned by the Corporation and its partner, SMT also provides ship management services for two vessels not owned by the two partners and SMT also charters vessels from third parties under various commercial arrangements.

The SMT fleet is the largest and most diversified dry-bulk cargo fleet operating on the Great Lakes. The size of the fleet, together with a variety of unique vessel configurations, allows SMT to accommodate almost every dry-bulk shipping requirement. SMT's fleet complies with and is certified under both the ISO: 9001 Quality Standard and the ISM Code requirements. Certification is performed by Lloyds Register. In addition, all SMT managed vessels have approved security plans that fully comply with Canadian and U.S. regulations and the International Ship and Port Security (ISPS) Code. SMT, together with several other marine industry stakeholders, including Algoma Tankers Limited, is an active member of Green Marine, a collaboration of several marine industry stakeholder groups from both Canada and the U.S. that have implemented a voluntary environmental performance measurement and reporting program for the Great Lakes – Seaway Waterway. The goal of this program is to demonstrate and communicate the maritime industry's environmental performance and its commitment to improving both performance and its profile on environmental matters.

Industry Segments

Seaway Marine Transport

(BY TONNES)



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

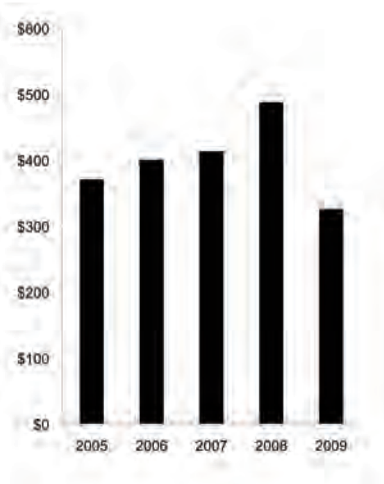
SMT's fleet includes both self-unloading and traditional bulk vessels. Self-unloading bulk carriers discharge their cargo using onboard equipment. Cargo flows from the cargo hold through gates to conveyors located below the cargo hold. The cargo is carried through the ship, and then elevated to an unloading boom at deck level. Unloading booms are 75-80 metres long and can be moved up to 90 degrees from each side of the vessel. Self-unloaders either discharge cargo to stockpiles or directly into receiving storage facilities. Due to the flexibility of self-unloaders, the demand for this type of vessel is high. Traditional bulk carriers require shore-side facilities to discharge cargo. This type of vessel is primarily deployed in the movement of grain cargoes and iron ore for steel production.

The global economic crisis and North American recession has had a profoundly negative impact on most market segments served by SMT. As a result, the total shipping activity of SMT during 2009 was significantly reduced. In 2009, SMT operated a total of 19 self-unloaders and 8 bulkers for both the Corporation and its partner, which was down from 22 and 13, respectively, in 2008. In 2009, the total amount of cargo carried by SMT and SMT's vessel operating days were lower by 33.0% and 33.5%, respectively. The drop in vessel activity translated directly into reductions in both gross revenues and operating earnings. The weak economic conditions also led to a drop in the earnings of our ship repair and marine engineering business. Total gross revenues of the Domestic Dry-Bulk segment fell by 33.2% to $326,015 in 2009. Nearly one-third of the reduction in gross revenues, however, is attributable to lower fuel surcharges paid by customers due to lower fuel prices during the year. Operating earnings net of income tax of $3,230 in 2009 compared to $12,797 for the previous year were very disappointing.

Revenue

Domestic Dry Bulk

(IN MILLIONS)



In 2009, an agreement was reached with a major customer regarding the discontinuation by this customer of its use, under a long-term contract, of the U.S. flag self-unloading tug and barge unit. This agreement provided fair compensation for the under-performance of this customer during 2009 and for the impact of the loss of this customer's shipping activity during the remaining term of the contract.

Reduced demand for aggregate products and construction material shipments (41.1% lower), iron ore for steel producers (29.4% lower) and coal for power generation (54.2% lower) led the decline in total tonnage carried by SMT in 2009. Together, the losses from these three industrial sectors accounted for 90.7% of the total reduction in tonnage carried by SMT. Each of these major sectors is discussed below in more detail. Small declines in the shipments of grain, salt and miscellaneous other cargoes by SMT accounted for the remaining portion of the decline in 2009 shipping activity.

The steel industry was particularly hard hit by the global economic crisis. The World Steel Association (WSA) has reported that raw steel production in Canada and the U.S. declined by 39.2% and 36.4%, respectively, during 2009. Notwithstanding this very significant decline, the WSA also reports improvements in both Canadian and U.S. steel production during the second half of 2009 with annualized rates of production in both countries 40.8% higher in December 2009 than in January 2009. We remain hopeful that with continuing economic recovery this important market segment will also continue to improve throughout 2010.

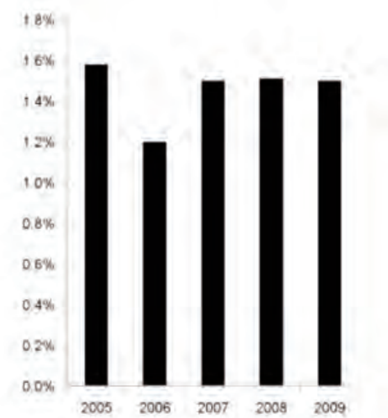
SMT's shipments of coal for power generation in Ontario fell dramatically as the combined impacts of the economic recession, milder weather and electricity conservation efforts by consumers considerably reduced electricity demand in Ontario. The Independent Electricity System Operator (IESO) has reported that the demand for electricity in Ontario fell by 6.1% in 2009 from the prior year, reaching the lowest level of demand in Ontario since 1997. Coal-fired generation absorbed most of the decline in electricity demand in 2009, falling 57.8% from 2008 levels to the lowest level recorded in 45 years. The IESO has forecast modest electricity demand growth for Ontario in 2010 and 2011 as the economic recovery gains momentum. We note, however, that without a return in demand to levels existing prior to 2009, the requirement for coal-fired power generation will likely remain at low levels. We also note that the Ontario Government has announced its intention to phase out coal-fired power generation by the end of 2014.

The demand for aggregates and construction materials also declined significantly within the Great Lakes market area during 2009. The Lake Carriers Association (LCA) has reported that the production of aggregates for shipment by vessels from primary U.S. and Canadian aggregate quarries located on Lakes Erie, Huron and upper Lake Michigan fell by 27.4% during 2009. Further, they report that 2009 shipments are nearly 36% below the five-year historical average. The LCA notes in its report that efforts by government to stimulate the economy have yet to translate into aggregate-intensive projects. The aggregate industry also produces flux stone used in steel making. Deliveries to this market in 2009 were also adversely affected by the downturn in the steel industry.

Incident Costs

Domestic Dry-Bulk

(PERCENTAGE OF NET REVENUE)



In our 2008 Annual Report, we noted that although the diversity of SMT's markets brings some stability in the face of otherwise volatile markets, these markets could not be expected to be immune from potential effects of the global economic crisis. We also noted that most governments around the world, including Canada and the U.S., had undertaken significant steps to address the global economic challenges and to stimulate economic activity. At the time of the writing of the 2008 Annual Report, it was not foreseen that the fallout from the economic crisis would have had such a profoundly negative impact on major market segments as we have described above. At this time, we take comfort from the fact that we have begun to see signs of economic growth returning to SMT's market area and that most leading economic forecasters predict continuing economic recovery throughout 2010.

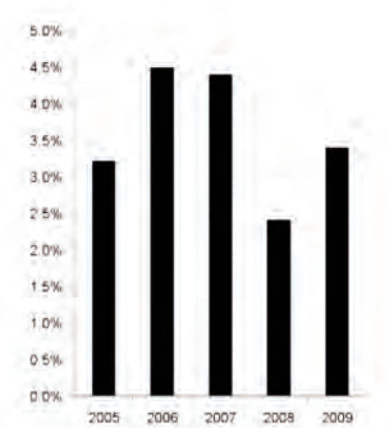
In 2009, SMT spent $61,500 in vessel repairs during the winter lay-up period. These expenditures are made to enhance vessel performance and to maintain compliance with regulatory requirements. In addition, SMT undertook several capital improvement projects on vessels totalling $5,600 in 2009. These capital improvement projects consisted primarily of generator modernization and vessel communication improvements.

Effective cost control, operational excellence and continuous improvement are critical to SMT's goal of being the most competitive marine transportation service provider on the Great Lakes - St. Lawrence Seaway . Two key measures of quality performance are incident costs and non-productive days. In 2009, incident costs as a percentage of net revenue was unchanged from 2008 at 1.5%. Non-productive days as a percentage of available days increased from 2.4% in 2008 to 3.4% in 2009. SMT continues to focus its attention on improving these measures.

Non Productive Days

Domestic Dry-Bulk

(PERCENTAGE OF AVAILABLE DAYS)



The Canadian flagged vessels in the SMT fleet have labour agreements with various unions representing the officers and seamen. The three labour unions representing the shipboard employees on the Corporation's vessels, including the Canadian Merchant Service Guild ("CMSG"), Canadian Marine Officers Union ("CMOU") and the Seafarers International Union ("SIU") each have labour agreements with the Corporation that expire on May 31, 2011. Labour contracts covering vessels owned by the Corporation's partner in SMT expire in May 2010 (CMSG) and March 2011 (Canadian Autoworkers Union).

The Corporation announced on November 7, 2007 that it had entered into agreements with Chengxi Shipyard located in Jiangyin, China, jointly with its partner in SMT, to construct two maximum seaway size self-unloading forebodies to be attached to the fully modernized and refurbished aft-ends of the vessels *Algobay* and the *Algoport*. Part of the complete renewal and modernization of the *Algobay* included re-powering the vessel with a new modern main engine and new generators plus new controls and major operating systems. The new *Algobay* project was completed at the Chengxi Shipyard in November 2009. The vessel sailed to the east coast of North America, arriving in late December 2009 where it is temporarily laid-up awaiting the opening of the St. Lawrence Seaway and the commencement of the 2010 Great Lakes – St. Lawrence Waterway navigation season in late March 2010.

The second forebody was launched in early November 2009. It was planned that this forebody would be joined to the stern section of the Corporation's vessel *Algoport*, when it arrived at the shipyard. Unfortunately, the *Algoport*, while unmanned and under tow to China, was lost during a storm in the Pacific Ocean on September 6, 2009. There were no injuries, loss of life or environmental impact from this incident and the loss was insured. Following a comprehensive review of possible options to replace the lost *Algoport* stern section, the Corporation and its partner commissioned a design for the construction of a completely new stern section and have contracted with Chengxi Shipyard for its construction. The entirely new vessel is expected to be completed in January 2011 and commence service at the start of the 2011 Great Lakes – St. Lawrence Waterway navigation season. Although the new vessel's arrival in Canada is delayed by about six months, the ability to include advanced design, technology and environmental features in the new stern section will provide long-term value for the ship.

In early 2010, the Corporation reached an agreement with SMT to time charter three bulk carriers owned by the Corporation for a five year term commencing upon their arrival in Canada later this year. These vessels, the *Algoma Spirit*, the *Algoma Guardian*, and the *Algoma Discovery* are currently owned by Algoma Shipping Inc., a wholly owned foreign subsidiary of the Corporation. They are all maximum seaway size bulkers and were built in 1986 (*Spirit*) and 1987 (*Guardian and Discovery*). Upon their arrival, the Corporation will provide operating management and crewing services for the vessels. The vessels are expected to be deployed by SMT primarily in the grain and iron ore trades.

The Corporation, together with many other marine transportation industry stakeholders, have strenuously advocated for the elimination of the 25% Canadian Federal import duty on foreign built vessels. A very broad range of support for this important objective has been obtained. We are pleased to report that in October, 2009 the Canadian Government, through the Department of Finance, announced that it was seeking views on a proposal to grant the remission of import duties on the importation of certain types of vessels, such as those employed by the Corporation in its Domestic Dry-Bulk and Product Tanker segments on and after January 1, 2010. This extremely positive action is also very timely. The Government's comment period has closed and now we are awaiting the formal announcement of the Government's plan. The 25% vessel import duty has no equal among other modes of transportation and unfairly penalizes ship owners and users of marine transportation services. The Corporation does not believe that Canadian shipyards have the capacity or facilities to competitively and efficiently build vessels of the size and type required by it.

The strategic importance of ordering new vessel capacity that is efficient, environmentally safe and cost competitive has never been greater. Accordingly, the Corporation and its partner in SMT have undertaken a joint effort to develop an optimal vessel design to replace the venerable lakers that have provided decades of reliable and safe transportation services on the Great Lakes – St. Lawrence Waterway. These new vessels would be built to take full advantage of modern technologies and would be among the most efficient and environmentally advanced vessels operating in the world.

Ship Repair

The Corporation's ship repair business operates as Fraser Marine & Industrial ("FMI"). FMI provides diversified ship repair, steel fabrication, machine shop and electrical repair services to the Corporation's vessels, as well as other fleets on the Great Lakes - St. Lawrence Waterway. From their Port Colborne, Ontario location, FMI provides marine repair services in Owen Sound, Sarnia, Hamilton, Toronto, Montreal and the Welland Canal area. Supervision and core skills are provided from Port Colborne and local, temporary labour is hired for the work in specific ports. These are the ports that the Great Lakes vessels generally use for winter lay-up berths. Although these ports are the main winter repair centers, FMI can quickly mobilize a work force in any Great Lakes port if justified.

The FMI motto of "Anytime … Anywhere" recognizes the round-the-clock, mobile nature of the marine industry. During the summer months a core of supervisors and skilled workers are available for unscheduled and emergency repair work that inevitably occurs on both domestic and foreign vessels on the Great Lakes. FMI continues to work with its customers and provides competitive rates for pre-fabrication of material that is anticipated for the coming winter. This allows utilization of shop facilities and labour during slower summer months and efficient use of more limited resources in the winter.

Annual revenue fluctuations are a result of shipping companies year to year repair variances. FMI continues to make positive contributions to the Domestic Dry-Bulk financial results.

FMI is the premier top-side ship repair firm on the Great Lakes and has demonstrated its ability to take on very large and complex projects and complete them in the short winter repair period. They have an enviable reputation of finishing these projects on time, on budget and to a high standard of quality.

In 2009, FMI signed a three year collective bargaining agreement with the Steelworkers of America Union which will be valid until May 2012.

Product Tankers

The Corporation's Product Tanker segment serves both domestic and international markets. This segment consists of seven product tankers employed in domestic Canadian flag service and presently one product tanker trading in international markets.

The domestic fleet's primary function is to provide safe and reliable transportation services for liquid petroleum products throughout the Great Lakes, St. Lawrence Seaway and Atlantic Canada regions. Customers include major oil refiners, leading wholesale distributors and large consumers of petroleum products who demand the highest levels of quality and service.

The Corporation's foreign flag product tanker, the *Algoma Hansa* is owned by a wholly owned foreign subsidiary. This vessel is a sister ship to the *Algosea*, which trades as part of the domestic fleet. In October 2008, the *Algoma Hansa* became the first vessel to join the new international product tanker venture, Hanseatic Tankers. In addition to the *Algoma Hansa*, the participants in this venture are building seventeen 16,500 dead weight tonne (DWT) and six 25,000 DWT product tankers in two yards in China. The Corporation is contributing three of the new 16,500 and two of the new 25,000 DWT tankers. In 2009, two of the new 16,500 DWT vessels joined the Hanseatic Tankers fleet coincident with their delivery by the shipyard to one of the fleet members. The remaining vessels will be delivered throughout 2010 and 2011 with the Corporation's vessels expected to be delivered in 2011.

In January 2009, the second new product tanker *AlgoCanada,* arrived in Canada to join her sister ship, the new *Algonova*, which arrived in October 2008. These two vessels were built by the MedMarine Group of Eregli, Turkey. They are high quality 11,267 deadweight product tankers. They are capable of unlimited ocean voyages and meet all modern double hull, safety and environmental requirements for engine emissions and cargo handling. The vessels feature an ice class 1A hull design and specification for year round operations in Canada.

During 2009, the Corporation successfully bid to provide fuel delivery and vessel bunkering services within the Halifax Harbour commencing on August 1, 2009. In connection with this bid, the Corporation, through a wholly owned subsidiary, entered into a long-term bareboat charter arrangement with an unrelated party. This chartered vessel was re-named the *Algoma Dartmouth* and it commenced operations within the Halifax Harbour as planned. On February 2, 2010, the Corporation announced it had acquired ownership of the *Algoma Dartmouth*. This vessel was built in Turkey in 2007 and is a high specification, modern, double-hull IMO II oil and chemical tanker. Its overall length is 90.5 metres, breadth is 14.6 metres, it has a cargo capacity of 3,569 tonnes and a cubic capacity of 4,324.26 cu. metres. This vessel is an excellent addition to the domestic tanker fleet.

The *Algonova*, *AlgoCanada* and *Algoma Dartmouth* joined the *Algoscotia* (built in 2004), the *Algosea* (built in 1998), the *Algosar* (built in 1978) and the *Algoeast* (built in 1977 and converted to a full double hull in 2000). Since 2006, the Corporation has operated only double-hulled product tankers and is the most modern fleet operating in its service area.

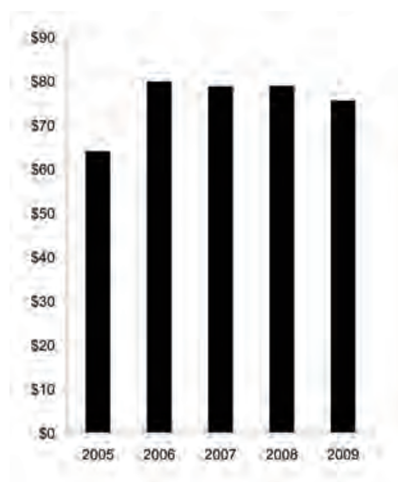
As previously reported, the proposal announced by the Canadian Government to grant remission of import duties on the importation of certain types of vessels effective as of and after January 1, 2010. A comment period on this proposal is closed and we are now awaiting the formal announcement of the Government's plan. In its announcement, the Canadian Government also stated that all duty remission requests for ships that are currently under consideration by the Department of Finance will be assessed based on their individual merits and the views of stakeholders. The Corporation has pending duty remission applications for the *Algonova*, *AlgoCanada* and the *Algoma Dartmouth*. The value of the duty paid or payable for these ships is $18,183.

The impact of the global economic crisis and North American recession on the demand for petroleum products has been significant. During 2009, gross revenues for the Corporation's Product Tanker segment fell 4.3% to $75,466. Although the addition of the *Algonova* and *AlgoCanada* resulted in an increase of 18.2% in the total number of vessel operating days in 2009, the average utilization of the vessels actually fell during the year from 99.0% in 2008 to 88.2%. The volume of oil products shipped also fell 15.3% during 2009. Internationally, the *Algoma Hansa* operated more days, due to the fact that there was no regulatory dry-dock requirement in 2009 as there was in 2008. The *Algoma Hansa* generated improved total earnings in 2009 due to more operating days; however, the decline in the demand for petroleum products due to the global economic crisis, resulted in reduced average daily revenues. Operating earnings net of income tax for the Product Tankers segment increased by 21.5% to $8,107 during 2009. The Corporation anticipates that the demand for petroleum product shipments will increase in 2010 as the economic recovery continues.

Revenue

Algoma Tankers

(IN MILLIONS)

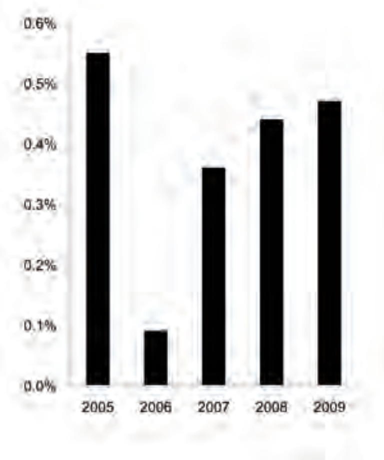


The domestic fleet's technical and commercial operations are managed by the Corporation's own team of professionals located in St. Catharines, Ontario. This group is focused on customer service, quality, performance, safety, security and environmental responsibilities. Two key performance indicators tracked are incident costs, expressed as a percentage of net revenue and non productive days, expressed as a percentage of available days. Unfortunately, over the past year, both performance indicators deteriorated. Incident costs as a percentage of net revenue increased from 0.42% in 2008 to 0.47% in 2009 and non-productive days increased from 1.68% in 2008 to 11.3% in 2009. The deterioration in these two important performance measures is primarily attributed to incidents involving the new vessels, the *Algonova* and *AlgoCanada*. These incidents did not result in a personal injury, loss or damage to cargo or any adverse environmental impact but the Corporation nevertheless considers the incidents very serious. One incident involved the failure of a gearbox, an important component of the ship's propulsion system. The original component was found to be faulty and has since been replaced. The second incident involved part of the cargo handling system of both new ships. Modifications were made to this system in order to improve its performance; however, the system failed to operate as required. As a result of this failure, the systems on both the *AlgoCanada* and the *Algonova* were removed from operation. In addition, the shipboard and shore management procedures were reviewed and revised to accommodate both the required changes in vessel operating practices and to ensure that a similar incident does not reoccur.

Incident Costs

Algoma Tankers

(PERCENTAGE OF AVAILABLE DAYS)



Shipboard employees on the domestic product tanker vessels are represented by two labour unions. The Canadian Merchant Service Guild ("CMSG") and the Seafarers International Union ("SIU") each have labour agreements that expire on July 31, 2010. Vessel management and maintenance of the *Algoma Hansa* is outsourced to Bernhard Schulte Shipmanagement, a leading ship management company. Technical experts employed by the Corporation's international subsidiaries maintain oversight responsibility for the *Algoma Hansa*.

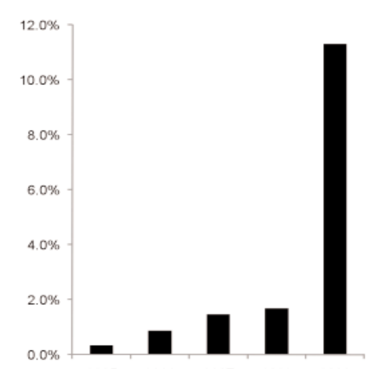
The domestic fleet operates an ISO 14001 compliant Environmental Management System launched in 2008. This system builds upon the domestic fleet's successful and compliant International Safety Management (ISM) Code and ISO 9001 Quality Management Systems. Further enhancing the Corporation's focus on environmental performance is its voluntary membership in the industry led "Green Marine" environmental initiative. The Corporation, together with several other marine industry stakeholders from both Canada and the U.S., including SMT, is an active member of Green Marine. The members of Green Marine have implemented a voluntary environmental performance measurement and reporting program for the Great Lakes-St. Lawrence Waterway. The goal of this program is to demonstrate and communicate the maritime industry's environmental performance and its commitment to improving both performance and its profile on environmental matters.

Over the last ten years, the Corporation has invested nearly $200 million to create and sustain the most modern tanker fleet operating in the Great Lakes, St. Lawrence and Atlantic Canada market areas. Internationally, it has committed $187 million for the purchase of the five new product tankers that will join the *Algoma Hansa* in the Hanseatic Tankers fleet. We continue to expand our product offering in our traditional Canadian market area and we are poised to grow profitably both here and internationally.

Non Productive Days

Algoma Tankers

(PERCENTAGE OF AVAILABLE DAYS)



Ocean Shipping

The Corporation's interest in Ocean Shipping consists of a joint interest in five ocean self-unloaders, two wholly owned ocean self-unloading vessels and three wholly owned ocean bulk carriers. The seven ocean self-unloaders are combined with twenty other vessels in the international ocean self-unloader fleet. This fleet remains the largest of its kind providing ocean going self-unloader transportation services.

As reported previously, the Corporation has reached an agreement with SMT to time charter the three ocean bulk carriers owned by a wholly-owned subsidiary for a five year term commencing upon their arrival in Canada later this year. These vessels, the *Algoma Spirit*, the *Algoma Guardian*, and the *Algoma Discovery* are all maximum seaway size bulkers and were built in 1986 (*Spirit*) and 1987 (*Guardian* and *Discovery*). Upon their arrival, the Corporation will provide operating management and crewing services for the vessels. The vessels are expected to be deployed by SMT primarily in the grain and iron ore trades. When the vessels were first purchased in mid-2008, the Corporation announced its intention to make these vessels available to SMT once their existing time charter agreements ended. This action has been accelerated through the co-operation of the time charterer who has granted the Corporation an early release from its time charter commitments.

The three major commodities carried by ocean self-unloaders include coal for power generation, crushed aggregates for construction and gypsum for wallboard manufacturing. Ocean self-unloaders also provide transportation services for steel industry and for salt shippers. Markets are centered in North and South America; however, activities can be worldwide. Service is provided under long-term contracts to leading companies in each sector.

In last year's Annual Report, we noted that the diversified nature of the markets served by ocean self-unloaders and the value added services they provide should offer some protection from volatile ocean shipping markets. We were also cognizant of the fact that strong government support of public infrastructure projects should help maintain the demand for some products traditionally shipped by the pool, such as aggregates. We did not, however, expect ocean self-unloaders to be immune from the global economic crisis.

The impact of the global economic crisis was quite dramatic for many shippers. Reports of dramatic drops in international spot market freight rates were widespread. The ocean self-unloader fleet itself experienced volatility in requirements at times during the year as shippers grappled with weak market demand and demand for raw materials. Fortunately, due to the long term contractual nature of ocean self-unloader markets and the co-operation of vessel owners who provided flexibility by scheduling regulatory dry-dockings at times of low market demand, the negative impacts of weak market conditions were mitigated somewhat. The three ocean bulk carriers remained under long-term time charter agreements during 2009 so their revenues were not adversely affected by deteriorating market conditions.

Revenue

Ocean Shipping

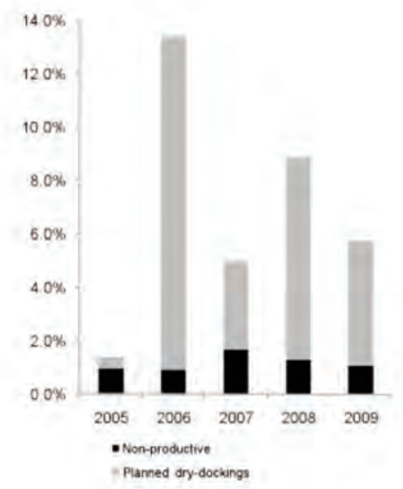
(IN MILLIONS)

Ocean Shipping did experience some negative financial impacts from the global economic crisis and North American recession, but not to the extent experienced with the Corporation's Domestic Dry Bulk segment. Gross freight revenues fell by 5.4% to $92,620 in 2009 primarily as a result of the impact of the North American recession and reduced fuel surcharges paid by customers. This reduction occurred despite an 11.8% increase in vessel operating days because of the three ocean bulkers, acquired in 2008, operating for the full calendar year. Operating results were also impacted by increased operating costs. These cost increases were partially offset by lower expenditures for regulatory dry-dockings. Total operating earnings net of income tax for the Ocean Shipping segment fell by 24.6% to $15,943 in 2009.

Non Productive Days

Ocean Shipping

(PERCENTAGE OF AVAILABLE DAYS)



Coal transportation for power generation represents the largest single market segment served by ocean self-unloaders. During 2009, coal shipments were reduced by 6.8% due to the impacts of the North American recession and due to increased competition for coal from other energy sources. Notwithstanding these adverse impacts, the movement of coal for power generation continues to be an important market segment for ocean self-unloaders. It is expected that coal imports into the U.S. will increase in the coming years and growth in Central and South American coal requirements is expected to increase as these regions invest heavily in their infrastructure.

Aggregate transportation remained the second largest market segment served by ocean self-unloaders; however, tonnages shipped in 2009 were 26.7% below 2008 levels. It is expected that the demand for aggregate products will strengthen in 2010 as the North American economy continues to improve and in response to government spending on infrastructure renewal and development. Gypsum shipments were negatively affected by the U.S. recession as new construction dropped significantly. In 2009 gypsum shipments dropped by 34.1% from 2008 levels. Several gypsum plants that had traditionally been served by ocean self-unloaders were closed during the year. While we expect a recovery in gypsum demand as the U.S. economy improves, we believe the return to previous levels of transportation will be slow as building construction gradually recovers.

Shipments of iron ore were also adversely affected by the recession and the dramatic reductions in U.S. raw steel production, as reported previously. Iron ore shipments fell by 37.2% for the year but activity levels improved during the second half of the year. We expect this improvement to continue in 2010 as the North American economy continues to recover.

Planned dry-docking days as a percentage of available days decreased from 7.55% in 2008 to 4.66% in 2009 together with an associated reduction in dry-docking expenditures. Total non-productive operating days (excluding dry-docking days) increased slightly from 1.04% to 1.07% during the same period.

Vessel management and maintenance of the *Honourable Henry Jackman*, *Bahama Spirit* and *Weser Stahl* is outsourced to Bernhard Schulte Shipmanagement and the other four self-unloaders are managed by V-Ships. The three ocean bulkers are managed by Wallem Shipmanagement. All three are world-class ship management companies. Technical experts employed by the Corporation's subsidiaries and its partners maintain oversight responsibilities for the ocean shipping fleet. The Corporation and its ship managers continue to focus on productivity, operational excellence, safety, security and environmental protection.

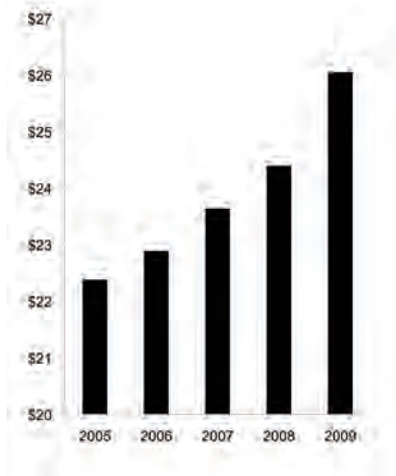
Real Estate

The Real Estate segment of the Corporation includes investment properties located in the cities of Sault Ste. Marie, St. Catharines, and Waterloo, Ontario. In Sault Ste. Marie, the segment owns and manages the Station Mall, the Station Tower and 289 Bay Street office buildings, and Station '49', a residential apartment building. The segment also owns, but does not manage, the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre. In St. Catharines, it owns and manages three office buildings known as 63 Church Street, 20 Corporate Park Drive, and 25 Corporate Park Drive as well as two commercial plazas, Ridley Square and Huntington Square, and a light industrial plaza known as Martindale Business Centre. In addition, the segment manages an office building in St. Catharines that is jointly owned. There are also three office buildings in Waterloo, located at 408, 410, and 412 Albert Street, collectively known as the Waterloo Technology Campus.

Revenue

Real Estate

(IN MILLIONS)



Revenue increased by 6.8% in 2009 to $26,046 when compared to 2008 revenue of $24,391. The revenue increase is attributable mainly to the hotel which, prior to February 1, 2009, was under lease and, accordingly, received rental income. Commencing February 1, 2009, the Real Estate segment assumed the management of the hotel and as a result all revenue derived from operations for the remainder of the year is included in revenue. Operating earnings net of income tax decreased by 34.6% to $3,437 which was lower than 2008 operating earnings net of income tax by $5,256. The decrease is mainly attributable to the poor operating results of the hotel for the disruption and closure due to the modernization program, which commenced in May 2009 and was completed in January 2010. Also contributing to the decrease was the weaker financial results of the Station Mall, and the non-recurring gain from the sale of one of our investment properties in 2008.

In 2009, a total of $4,900 was spent for the modernization program of the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre and general upgrades and tenant improvements to the Corporation's other owned properties. In 2010, approximately $4,700 will be invested to complete the modernization program for the hotel and also for renovations, general upgrades and tenant improvements for our other owned properties.

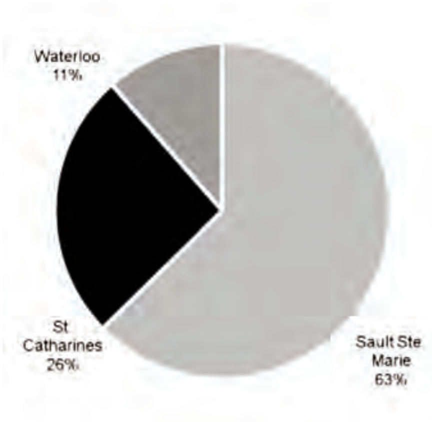
St. Catharines, Ontario

Although revenue from the downtown office building, 63 Church Street, which also houses the Corporation's executive offices, decreased by 3%, the occupancy rate is currently 80% compared to 76% at the end of 2008 and therefore it is expected an increase in revenue will occur in 2010. The demand for prime commercial office space has not improved and the occupancy levels for both the 20 and 25 Corporate Park Drive buildings have remained the same since the end of 2008 at 94% and 62% respectively. Revenue for 20 Corporate Drive has remained constant in 2009 compared to 2008, while 25 Corporate Park Drive has increased by 22%

Geographic Diversification

Real Estate

(BY SQUARE FOOT)



over 2008, representative of the partial year of operation in 2008, as the building was completed in March 2008. Our joint venture office building, 75 Corporate Park Drive, has maintained 100% occupancy throughout the year and has increased base rental revenue by 7% in 2009 over 2008 due to lease-up which occurred in 2008. The current occupancy rates for the Ridley Square and Huntington Square plazas are at 96% and 90% respectively, both showing decreases from the previous year's level of 97% and 94% respectively. Combined revenue has also declined by 2% in 2009 under 2008, which is indicative of the soft market conditions for leasing in the retail and service sectors. Both revenue and the occupancy level at 96% for the light industrial property, Martindale Business Centre, has remained the same compared to the previous year.

Sault Ste. Marie, Ontario

Station Mall revenue decreased by 2% in 2009 compared to 2008 due mainly from decreased rental income as the occupancy level decreased to 93% from 94% at the end of 2008. The retail sector is expected to remain challenging for 2010 as growth in consumer spending remains soft. We continually review tenant mix with respect to the corresponding benefits of box-store and discount retailers versus the more traditional retailers in a regional shopping centre setting such as this.

Our full-service hotel, which was managed and operated as the Sault Ste. Marie Waterfront Hotel & Conference Centre from February 1, 2009, until October 12, 2009, has undergone a complete modernization program at a total cost of approximately $6,700. The closure of hotel suites during the modernization program including the complete closure of the hotel in October 2009 resulted in a loss from operations for the hotel operation for the year. We finalized an agreement with Delta Hotels Limited in 2009 to renovate the hotel to their standards and for them to manage the hotel upon re-opening. This program included enhancements to the building envelope, numerous building upgrades, esthetical and amenity improvements as well as design changes to increase operational effectiveness. The above, in addition to completely new furnishings and fixtures throughout the building, has resulted in a first-class, like-new facility. On January 18, 2010, the modernization program was completed and the hotel opened as the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre under the management of Delta Hotels Limited. We are optimistic that with the new Delta brand, in addition to this facility being the only four-star hotel in the region, we will experience significant improvement in the hotel's financial performance.

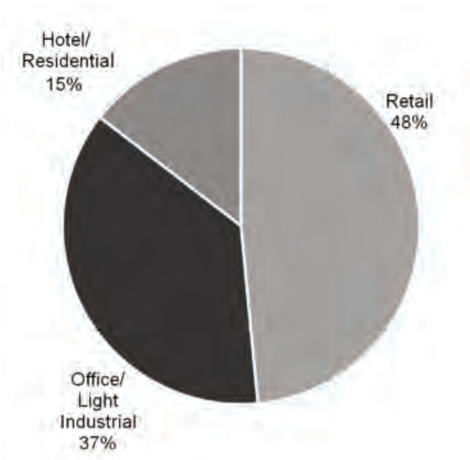
Although revenue from our Station Tower office building decreased in 2009 by 1% compared to 2008, the lease-up of a new tenant in the fall of 2009 has increased our occupancy to 95% from 92% at the end of 2008 which should provide for an increase in revenue for 2010. Our 289 Bay Street office building, which remains at the 100% occupancy level, had a revenue increase of 7% in 2009 over 2008 due to an increase in rental rates.

The Station '49' apartment building is currently 100% leased with increased revenue of 3% in 2009 over 2008 mainly due to increases in rental rates. Occupancy commonly fluctuates throughout the year due to typical tenant turnover.

Asset Mix

Real Estate

(BY SQUARE FOOT)



Waterloo, Ontario

Revenue increased by 1% in 2009 when compared to 2008 for the three office buildings known as the Waterloo Technology Campus, due mainly to a lease renewal accompanied by an increase in rental rate. Occupancy remains at 100% with 3% of the total space leased on a temporary basis to an already existing tenant of the Campus who is looking at the possibility of expansion. Another existing major tenant's lease expires in 2010 and is examining its spatial requirements with the expectation of downsizing. We are currently working with both tenants to see if we can meet their requirements as well as investigating the market for other potential tenancies. The City of Waterloo's economic situation has continued to be stable with respect to the Class 'A' office market.

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 conformity with Canadian generally accepted accounting principles and necessarily include some amounts that are based on estimates and judgments. Information used elsewhere in this annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss and that financial records are reliable.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, which consists solely of outside directors. The Audit Committee meets periodically with management and the auditors to review results of audit examinations and financial reporting matters. The independent auditors appointed by the shareholders have full access to the Audit Committee, with and without management present.

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

Greg D. Wight, FCA
President and Chief Executive Officer
February 17, 2010

David G. Allen, CA
Vice President, Finance and Chief Financial Officer
February 17, 2010

Auditors' Report

We have audited the consolidated balance sheets of Algoma Central Corporation as at December 31, 2009 and 2008 and the consolidated statements of earnings and retained earnings, comprehensive earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte & Touche LLP,
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario, February 17, 2010

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 2009 and 2008
(In thousands of dollars, except per share figures)

	2009	2008
REVENUE	$ 520,147	$ 688,914
EXPENSES		
Operations	419,981	558,293
General and administrative	28,456	26,802
	448,437	585,095
EARNINGS BEFORE UNDERNOTED ITEMS	71,710	103,819
Amortization on capital assets	(36,103)	(34,221)
Financial expense *(Note 6)*	(4,941)	(1,444)
Net gain (loss) on translation of foreign-denominated assets and liabilities	3,387	(4,699)
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	34,053	63,455
INCOME TAX PROVISION *(Note 7)*	(386)	(12,308)
LOSS (EARNINGS) OF NON-CONTROLLING INTEREST	5,178	(9,867)
NET EARNINGS	38,845	41,280
RETAINED EARNINGS, BEGINNING OF YEAR	398,723	362,267
DIVIDENDS	(6,910)	(6,521)
REFUNDABLE DIVIDEND TAXES *(Note 8)*	(1,182)	1,697
RETAINED EARNINGS, END OF YEAR	$ 429,476	$ 398,723
BASIC AND DILUTED EARNINGS PER SHARE	$ 9.98	$ 10.61

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

December 31, 2009 and 2008
(In thousands of dollars)

	2009	2008
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 9)*	$ 12,156	$ 11,800
Accounts receivable	64,589	81,901
Materials and supplies	11,087	10,955
Prepaid expenses	4,334	6,908
Income taxes recoverable	12,057	20,066
	104,223	131,630
CAPITAL ASSETS *(Note 10)*	578,596	562,090
EMPLOYEE FUTURE BENEFITS *(Note 11)*	11,487	12,372
	$ 694,306	$ 706,092
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	$ 55,843	$ 79,501
Current portion of future income taxes *(Note 7)*	17,409	20,791
Advances and profits due to non-controlling interest	28,753	27,533
Dividends payable	772	697
Current portion of long-term debt *(Note 12)*	4,232	57,745
	107,009	186,267
FUTURE INCOME TAXES *(Note 7)*	29,557	32,639
LONG-TERM DEBT *(Note 12)*	108,721	37,439
OTHER LIABILITIES *(Note 13)*	10,286	9,677
COMMITMENTS AND CONTINGENCIES *(Notes 18 and 19)*	-	-
	255,573	266,022
SHAREHOLDERS' EQUITY		
SHARE CAPITAL *(Note 14)*	8,319	8,319
CONTRIBUTED SURPLUS	11,917	11,917
ACCUMULATED OTHER COMPREHENSIVE (LOSS) EARNINGS *(Note 15)*	(10,979)	21,111
RETAINED EARNINGS	429,476	398,723
	438,733	440,070
	$ 694,306	$ 706,092

APPROVED BY THE BOARD

Director

Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings

Years ended December 31, 2009 and 2008
(In thousands of dollars)

		2009		2008
NET EARNINGS	$	**38,845**	$	41,280
OTHER COMPREHENSIVE (LOSS) EARNINGS				
Unrealized (loss) gain on translation of financial statements of foreign self-sustaining operations		**(32,933)**		42,989
Unrealized gain (loss) on hedging instruments, net of income tax of $578 and $1,269		**843**		(2,037)
		(32,090)		40,952
COMPREHENSIVE EARNINGS	$	**6,755**	$	82,232

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008
(In thousands of dollars)

	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	$ 38,845	$ 41,280
Items not affecting cash		
Amortization	37,175	34,221
Future income taxes	(5,950)	2,469
(Loss) earnings of non-controlling interest	(5,178)	9,867
Net (gain) loss on translation of foreign-denominated assets and liabilities	(3,387)	4,699
Gain on disposal of capital assets	(3,945)	(440)
Other	312	2,278
	57,872	94,374
Net change in non-cash operating working capital *(Note 16)*	2,464	(4,399)
	60,336	89,975
INVESTING		
Additions to capital assets	(90,711)	(168,724)
Proceeds from disposal of capital assets	8,640	928
	(82,071)	(167,796)
FINANCING		
Proceeds from issue of long-term debt	27,135	79,489
Repayment of long-term debt	(5,500)	(4,750)
Net payments from (to) non-controlling interest	7,063	(8,717)
Dividends paid	(6,835)	(6,455)
	21,863	59,567
GAIN ON CASH HELD IN FOREIGN CURRENCY	228	1,922
NET CHANGE IN CASH AND CASH EQUIVALENTS	356	(16,332)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,800	28,132
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,156	$ 11,800

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008 (In thousands of dollars)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Algoma Central Corporation owns Canada's largest domestic fleet of vessels operating on the Great Lakes - St. Lawrence Waterway. This fleet consists of thirteen self-unloading and five gearless bulk carriers and seven product tankers. The Corporation has interests in ocean dry-bulk and product tanker vessels operating in international markets. The Corporation owns a diversified ship and diesel engine repair and fabricating facility active in the Great Lakes and St. Lawrence regions of Canada. In addition, the Corporation owns Algoma Central Properties Inc. and Algoma Central Hotels Ltd. which own and manage commercial real estate properties in Sault Ste. Marie, St. Catharines and Waterloo, Ontario, and has a 50% interest in 75 Corporate Park Drive Ltd. with Meridian Credit Union which owns an office building in St. Catharine's, Ontario.

The Corporation reached the milestone of 110 years of age in 2009. Its origins trace back to its creation as a railway in Sault Ste. Marie, Ontario in 1899. The Corporation's executive offices are located in St. Catharines, Ontario. The Corporation employs approximately 1,500 people world-wide. The Corporation has assets of $694 million and revenues of $520 million.

The Domestic Dry-Bulk segment includes thirteen self-unloading and five bulk carriers and Fraser Marine and Industrial, a division that provides ship and diesel engine repair and steel fabricating services. The Corporation's vessels are commercially and operationally managed by Seaway Marine Transport (SMT) a partnership with Upper Lakes Shipping Inc., an unrelated company. SMT holds a 25% interest in Laken Shipping Corporation (Laken), a U.S. company that owns a U.S. flag tug and barge. A wholly-owned subsidiary of SMT, called SMT (USA), time charters the tug and barge from Laken and commercially manages them.

The Product Tanker segment serves both domestic and international markets. The domestic fleet of seven product tankers is owned and operated through a wholly owned subsidiary, Algoma Tankers Limited (ATL). The Corporation's wholly-owned subsidiary, Algoma Tankers International Inc. (ATI) owns one product tanker currently active in international markets. ATI is currently having built five new product tankers. ATI's existing product tanker and the five new product tankers under construction will become part of the new international product tanker venture called Hanseatic Tankers. Other participants in Hanseatic Tankers include Bernhard Schulte of Hamburg, Germany, Sloman Neptun of Bremen, Germany, Intrepid Shipping LLC of Stamford, Connecticut and IMS Holdings LLC of Houston, Texas.

The Corporation's international Ocean Shipping segment consists of two entities. Marbulk Canada Inc. (MCI) is jointly owned by the Corporation and CSL Group Inc. It owns four ocean self-unloaders and a fifth self-unloader that is jointly owned with Bernhard Schulte. Algoma Shipping Inc. (ASI), a wholly owned subsidiary of the Corporation, owns two ocean self-unloading vessels and three ocean handy-sized geared bulk carriers. The seven MCI and ASI ocean self-unloaders are combined with twenty other ocean self-unloaders owned by CSL International Inc., of Beverly, Massachusetts, Oldendorff Carriers, based in Lübeck, Germany and T. Klaveness Shipping AS, based in Oslo, Norway to form the CSL International (CSLI) commercial arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation are as follows:

Basis of Presentation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and comprise the accounts of Algoma Central Corporation, its subsidiary companies, its variable interest entities and its proportionate share of joint ventures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. Significant estimates made by the Corporation include the useful lives of capital assets, the recoverability of long-lived assets and future income taxes.

In addition, the Corporation provides pensions and other post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. Those assumptions are disclosed in Note 11 to the Corporation's consolidated financial statements and changes to those assumptions during the year are disclosed in Note 4.

Consolidation of Variable Interest Entities

The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG 15) "Consolidation of Variable Interest Entities" requires the consolidation of variable interest entities where the Corporation is the primary beneficiary. A variable interest entity is any type of legal structure which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. A primary beneficiary is required to consolidate an entity when that party will absorb a majority of a variable interest entity's expected losses and/or receive a majority of the expected residual returns through contractual, ownership or other financial arrangements, as opposed to traditional voting rights.

The Corporation has an interest in Seaway Marine Transport with an unrelated company and also has a minority interest in Laken Shipping Corporation. Both of these interests are reported in accordance with accounting for variable interest entities and therefore are fully consolidated in the results of the Corporation.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash in the bank less outstanding cheques and short-term deposits that are readily convertible into a known amount of cash and are subject to a minimal change in value.

Materials and Supplies

Materials and supplies consist primarily of fuel on board vessels and are recorded at the lower of cost and net realizable value with cost being determined on a weighted average basis. Net realizable value of fuel on board vessels is the estimated revenue generated from the voyage less the cost associated with the voyage.

Capital Assets

Capital assets are stated at cost less accumulated amortization and amounts written down to net recoverable value. Interest incurred on funds borrowed to finance capital asset acquisitions is capitalized during the construction period.

The Corporation accounts for acquisitions of income–producing properties initiated on or after September 12, 2003 in accordance with EIC-140, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination". The Corporation allocates the purchase price of real property to land, building, tenant improvements, and intangibles, such as the value of above-market and below-market leases, lease origination costs and customer relationships, if any.

Domestic dry-bulk vessels are amortized on a straight-line basis over their remaining estimated lives of up to 25 years. The amortization on the tug and barge vessel ceased in October 2009 when it was decided to hold the vessel for sale.

Product tanker vessels are amortized on a straight-line basis over their remaining estimated lives of up to 24 years.

Ocean shipping vessels are amortized on a straight-line basis over their remaining estimated lives of up to 18 years.

Real estate assets including site improvements are amortized on a straight-line basis over their remaining estimated lives of up to 33 years.

Leasehold improvements are amortized over the remaining term of the respective lease agreements.

Marine assets are not amortized during the period when the vessels are under construction or are undergoing a significant improvement to extend their estimated useful life.

Impairment of Long-Lived Assets

The Corporation reviews whenever indications exist and at a minimum on an annual basis, whether there are any signs of impairment of its capital assets and identifiable intangible assets (“long-lived assets”). The impairment of a long-lived asset is measured by comparing the expected future undiscounted cash flows to the carrying amount of the asset. If the carrying value exceeds the amount recoverable, the carrying values are written down to estimated fair value.

Asset Retirement Obligations

The Corporation accounts for the recognition and measurement of liabilities related to legal obligations associated with the retirement of tangible long-lived assets by initially measuring the liability at fair value and subsequently adjusting the liability for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings over time. At December 31, 2009, there were no asset retirement obligations.

Vessel Repair and Maintenance

The Corporation incurs dry-docking costs during the performance of scheduled inspection of its vessels, which occur at least every five years. The costs of dry-docking are expensed as incurred.

Revenue Recognition

Revenues from marine operations are recognized ratably over the term of a voyage. Revenues from real estate rental operations with contractual rent increases are recognized on a straight-line basis over the terms of the respective leases. Revenue is only recognized when there is persuasive evidence that an arrangement exists, the amount is fixed or determinable and collection is probable.

Foreign Currency Translation

The financial statements of the Corporation's foreign self-sustaining joint ventures and subsidiary companies have been translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rate for revenues and expenses. Translation adjustments are recorded as part of Accumulated Other Comprehensive Earnings (Loss) included in Shareholders' Equity.

Exchange differences arising from the translation of monetary assets and liabilities denominated in foreign currencies are recorded in earnings.

Employee Future Benefits

The Corporation sponsors defined benefit pension plans, a defined contribution pension plan and other post-retirement benefits including life insurance and health care. The benefit plans are further described in Note 11.

The cost of defined benefit pensions and other post-retirement benefits that relate to employees' current service is charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value.

The discount rate used to measure the interest cost on the accrued future employee benefit obligation is set with reference to market interest rates on high-quality debt instruments. The excess of the net cumulative actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of the benefit assets and adjustments resulting from benefit amendments are amortized over the average remaining service life of active employees.

The cost of defined contribution pensions is expensed as earned by employees.

Income Taxes

The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the accounting and the tax basis of assets and liabilities and are measured using the enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Financial Instruments

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

The Corporation is required to classify all financial assets either as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables and, financial liabilities are classified as either held-for-trading or other liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and other liabilities.

The Corporation classifies its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, advances and profits due to non-controlling interest, dividends payable and financial long-term debt are classified as other financial liabilities, which are also measured at amortized cost.

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

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. The Corporation selected January 1, 2003 as the transition date to apply fair value accounting for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives.

At December 31, 2009 the Corporation has embedded derivatives that are required to be accounted for separately. The embedded derivatives relate to the foreign exchange component of certain contracts the Corporation entered into for the purchase of capital assets. The embedded derivatives were initially measured at fair value with subsequent changes in fair value being recognized in net earnings.

Transaction Costs

Transaction costs related to held-for-trading financial assets and liabilities are expensed to interest and other expenses. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are amortized over the expected life of the instrument using the effective interest method.

Comprehensive Earnings

Comprehensive earnings are composed of the Corporation's net earnings or loss and other comprehensive earnings. Other comprehensive earnings includes unrealized gains and losses on foreign currency translation of the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive earnings or loss are disclosed in the consolidated statements of comprehensive earnings. Accumulated Other Comprehensive Earnings (Loss) is included on the consolidated balance sheet as a separate component of shareholders' equity.

Hedges

The Corporation, in keeping with its risk management strategy, has elected to apply hedge accounting to its interest rate swaps and designate them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains or losses are recognized in comprehensive earnings to the extent the hedging relationship is effective. The Corporation has also entered into forward currency contracts to manage foreign currency exposure for commitments to purchase capital assets. Hedge accounting has not been applied or has been discontinued for each of the foreign currency contracts. The contracts are therefore, marked-to-market at each period end with resulting gains or losses being recognized in net earnings.

Earnings per Share

Earnings per share are calculated using the weighted average number of shares outstanding during the year. The Corporation does not have any dilutive instruments.

Future Accounting Changes

a. Business Combinations and Non-Controlling Interests

In January 2009, the Canadian Accounting Standard Boards ("AcSB") issued Section 1582 Business Combinations, Section 1601 Consolidations and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to International Financial Reporting Standards (IFRS) 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective for fiscal years beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the above new standards on its consolidated financial statements.

b. International Financial Reporting Standards

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The changeover date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended December 31, 2010.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

As a result, the Corporation has developed a plan to convert its consolidated financial statements to IFRS. The Corporation has established an IFRS team and is currently in the process of assessing the differences between IFRS and the Corporation's current accounting policies, as well as the alternatives available on adoption. Once completed, the assessment will include the impact of conversion on information technology and data systems, internal control over financial reporting, disclosure controls and procedures and business activities.

Changes in accounting policies are likely. The Corporation has identified the following standards, which may materially affect the Corporation's consolidated financial statements, as significant differences between IFRS and Canadian GAAP:

- Property, plant and equipment
- Investment property
- Interests in joint ventures
- Provisions, contingencies and contingent assets
- Employee benefits

3. CHANGE IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

On January 1, 2009, the Corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets (Section 3064). Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Developments Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The CICA's Emerging Issues Committee (EIC) Abstract No. 27, Revenues and Expenditures during the Pre-operating Period, is no longer applicable once Section 3064 has been adopted. These new standards had no material impact on the Corporation's financial position or results of operations.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, the Emerging Issues Committee (EIC) issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and the credit risk of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative Instruments. This EIC, which was effective on January 1, 2009, has no material impact on the Corporation's financial position or results of operations.

Fair Value and Liquidity Risk Disclosure – Amendments to Financial Instruments – Disclosures, Section 3862

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments have no impact on the Corporation's financial position or results of operations.

4. CHANGE IN ACCOUNTING ESTIMATES

Employee Future Benefits

The Corporation provides pension and other post-retirement benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and other post-retirement benefits is dependent on the selection of certain assumptions used by the Corporation in calculating such amounts. The most significant are the discount rate, the rate of increase of compensation, expected rates of return on plan assets, and the rate of increase in the cost of health care.

The assumptions are reviewed annually and the impact of any changes in the assumptions is disclosed in Note 11 to the consolidated financial statements for the years ending December 31, 2009 and 2008.

Effective December 31, 2008 the Corporation changed its assumptions on the discount rate from 5.5% to 7.3%. The 7.3% rate was used throughout 2009 for purposes of computing the net benefit cost incurred. Effective December 31, 2007 the Corporation changed the discount rate to 5.0% from 5.5%. The rate was used throughout 2008 for purposes of computing the net benefit cost incurred.

At December 31, 2009 and 2008, the Corporation changed the discount rate from 7.3% to 6.4%. and from 5.5% to 7.3%, respectively. The revised rates were used for purposes of calculating the accrued benefit obligation at December 31.

The adoption of these new assumptions has had the following effect on the consolidated financial statements.

	2009	2008
Increase (decrease) in accrued benefit obligation	$ 9,834	$ (20,237)
(Decrease) increase in unamortized amounts	$ (9,834)	$ 20,065
Increase in net earnings	$ -	$ 172

5. INTERESTS IN JOINT VENTURES

The Corporation, through its wholly owned subsidiary Algoma Shipping Inc. and through a joint venture interest in Marbulk Canada Inc. owns and operates ocean-going vessels. Both Algoma Shipping Inc. and Marbulk Canada Inc. are participants in an international commercial arrangement, whereby the marketing and commercial operations of the vessel management are outsourced.

The Corporation, through its wholly owned subsidiary, Algoma Central Properties Inc., has an interest in Seventy-Five Corporate Park Drive Ltd. with Meridian Credit Union Limited, an unrelated corporation. This joint venture owns an office building.

The Corporation, through its wholly owned subsidiary Algoma Tankers International Inc., has an interest in Hanseatic Tankers, a foreign joint venture with four other unrelated corporations. The Hanseatic Tankers joint venture commenced operations in October 2008 and will consist of twenty-four product tankers once all vessels are delivered in late 2011.

The Corporation's interests in the joint ventures are accounted for using the proportionate consolidation method.

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

	2009	2008
Revenue	$ 87,430	$ 95,108
Expenses	67,682	66,766
Net earnings	$ 19,748	$ 28,342
Assets		
Current	$ 14,951	$ 14,527
Long-term	20,781	27,088
	$ 35,732	$ 41,615
Liabilities		
Current	$ 5,642	$ 6,534
Long-term	3,559	2,058
	$ 9,201	$ 8,592
Cash inflow (outflow) from:		
Operating Activities	$ 22,858	$ 28,731
Investing Activities	(63)	(701)
Financing Activities	(375)	(255)
	$ 22,420	$ 27,775

6. FINANCIAL EXPENSE

The components of financial expense for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Interest expense on borrowings	$ 7,362	$ 4,831
Amortization of financing costs	1,072	66
Interest income on cash and cash equivalents	-	(1,882)
Net interest capitalized	(3,493)	(1,571)
	$ 4,941	$ 1,444

7. INCOME TAXES

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

	2009	2008
Combined federal and provincial statutory income tax rate	33.0%	33.5%
Earnings before income taxes and non-controlling interest	$ 34,053	$ 63,455
Expected income tax provision	$ 11,237	$ 21,257
Increase (decrease) resulting from:		
Effect of foreign exchange translation	(143)	512
Tax reduction due to environmental allowance	(1,386)	-
Tax applicable to earnings of non-controlling interest	1,708	(3,657)
Foreign tax rates different from statutory rate	(5,414)	(6,050)
Effect of corporate tax rate reduction	(4,741)	-
Other	(875)	246
	$ 386	$ 12,308

The components of the income tax provision for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Current income tax	$ 6,336	$ 9,839
Future income tax	(5,950)	2,469
	$ 386	$ 12,308

The components of the future tax liability at December 31, 2009 and 2008 are as follows:

	2009	2008
Capital assets	$ 25,241	$ 26,143
Accounting income not currently taxable	15,225	21,838
Other	6,500	5,449
	46,966	53,430
Less current portion of future tax liabilities	17,409	20,791
	$ 29,557	$ 32,639

8. REFUNDABLE DIVIDEND TAXES

The Corporation has interests in two joint ventures which are classified as private corporations under The Income Tax Act. A portion of the income tax that is paid on investment income by the private corporations is refundable as taxable dividends are paid by the private corporations. The Corporation's share of the accrued balance of the refundable dividend tax at December 31, 2009 and 2008 amounts to $1,656 and $651.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash balances with banks and investments in short term deposits with maturities of less than 90 days.

Cash and cash equivalents at December 31, 2009 and 2008 consist of the following:

	2009	2008
Cash in banks	$ 11,893	$ 11,800
Short-term deposits	263	-
	$ 12,156	$ 11,800

10. CAPITAL ASSETS

2009				
	Land	Amortizable Assets	Accumulated Amortization	Net
Domestic Dry-Bulk	$ 96	$ 512,820	$ 377,737	$ 135,179
Product Tankers	-	286,510	35,040	251,470
Ocean Shipping	-	172,395	52,484	119,911
Real Estate	7,648	102,768	38,380	72,036
	$ 7,744	$ 1,074,493	$ 503,641	$ 578,596

Amortizable assets at December 31, 2009 includes $77,788 relating to the progress payments on new product tanker vessels, $15,934 relating to the progress payments on the construction of a maximum seaway size self-unloading vessel and $4,317 relating to a hotel modernization. Amortization on these assets will commence when they are placed in service, which will occur at various dates over the next two years.

Amortizable assets at December 31, 2009 of the Domestic Dry-Bulk segment includes $4,737 relating to a tug and barge held for sale and also $4,631 relating to vessels, which have been removed from service and are not expected to operate in the future.

2008				
	Land	Amortizable Assets	Accumulated Amortization	Net
Domestic Dry-Bulk	$ 96	$ 522,833	$ 401,958	$ 120,971
Product Tankers	-	247,306	25,305	222,001
Ocean Shipping	-	200,589	52,564	148,025
Real Estate	7,648	98,986	35,541	71,093
	$ 7,744	$ 1,069,714	$ 515,368	$ 562,090

Amortizable assets at December 31, 2008 includes $35,506 relating to progress payments on new product tanker vessels and $22,399 relating to the progress payments on the construction of two maximum seaway size self-unloading forebodies.

11. EMPLOYEE FUTURE BENEFITS

The Corporation maintains two defined benefit pension plans and a defined contribution pension plan, which covers substantially all of its employees except for the majority of shipboard employees, who belong to pension plans not sponsored by the Corporation.

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

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

The most recent actuarial valuations of the obligations for the two defined benefit plans for funding purposes were as of January 1, 2007 and June 1, 2008. The next required valuation for the defined benefit plans will be as of January 1, 2010 and June 1, 2011.

Information, in aggregate, regarding the Corporation's future benefit plans for the years 2009 and 2008 is as follows:

	Pension Plans		Other Benefit Plans	
	2009	2008	**2009**	2008
Plan Assets				
Fair value, beginning of year	**$ 95,186**	$ 111,055	**$ -**	$ -
Actual return (loss) on plan assets	**11,498**	(9,603)	**-**	-
Benefits paid	**(7,304)**	(6,782)	**-**	-
Employee contributions to plans	**181**	177	**-**	-
Employer contributions to plans	**370**	339	**-**	-
Fair value, end of year	**99,931**	95,186	**-**	-
Accrued Benefit Obligations				
Obligations, beginning of year	**92,430**	108,489	**5,385**	4,512
Current service cost	**2,246**	3,096	**209**	208
Interest cost	**6,564**	5,867	**386**	243
Benefits paid	**(7,377)**	(6,868)	**(180)**	(153)
Change in assumptions *(Note 4)*	**9,278**	(18,537)	**556**	(1,700)
Actuarial losses	**-**	383	**-**	2,275
Obligations, end of year	**103,141**	92,430	**6,356**	5,385
Accounting plan (deficit) surplus	**(3,210)**	2,756	**(6,356)**	(5,385)
Unamortized amounts	**8,578**	3,737	**2,189**	1,855
Net benefit asset (liability)	**$ 5,368**	$ 6,493	**$ (4,167)**	$ (3,530)

The net benefit asset of all employee future benefit plans of $1,201and $2,963 at December 31, 2009 and 2008 consists of the following:

	2009	2008
Employee benefit assets		
Pension plans	$ 11,487	$ 12,372
Employee benefit liabilities		
Pension plans	$ 6,119	$ 5,879
Other benefit plans	4,167	3,530
Total	$ 10,286	$ 9,409
	$ 1,201	$ 2,963

The accounting plan (deficit) surplus of the pension plans consist of the following:

	2009	2008
The Employee Pension Plan of Algoma Central Corporation	$ 2,784	$ 8,382
The Union Employee Pension Plan of Fraser Marine & Industrial	1,309	1,012
Supplementary Employee Retirement Plan	(7,303)	(6,638)
	$ (3,210)	$ 2,756

The unamortized amounts consist of the following:

	Pension Plans		Other Benefit Plans	
	2009	2008	2009	2008
Unamortized transitional (asset) liability	$ (1,896)	$ (3,641)	$ 159	$ 297
Unamortized past service costs	1,465	1,658	-	-
Unamortized net loss	9,009	5,720	2,030	1,558
	$ 8,578	$ 3,737	$ 2,189	$ 1,855

The Corporation's net benefit cost incurred and net benefit expense is as follows:

	Pension Plans		Other Benefit Plans	
	2009	2008	2009	2008
Current service cost	$ 2,246	$ 3,096	$ 209	$ 208
Interest cost on plan obligations	6,564	5,867	386	243
Expected return on plan assets	(5,520)	(6,484)	-	-
Net benefit cost incurred	3,290	2,479	595	451
Amortization of transitional (asset) obligation	(1,733)	(1,733)	138	138
Amortization of past service costs	201	257	84	52
Net benefit expense recognized	$ 1,758	$ 1,003	$ 817	$ 641

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

	2009		2008	
	Amount	% of total	Amount	% of total
Short term notes	$ 2,240	2.1%	$ 4,377	4.4%
Canadian bonds	50,847	48.7%	48,815	49.2%
Canadian equities	22,072	21.2%	19,798	20.0%
Foreign equities	20,448	19.6%	17,228	17.4%
Annuities	8,723	8.4%	8,907	9.0%
	104,330	100.0%	99,125	100.0%
Amount related to defined contribution plan	(4,399)		(3,939)	
	$ 99,931		$ 95,186	

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

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

	Pension Plans		Other Benefit Plans	
	2009	2008	2009	2008
Discount rate used for estimating accrued benefit obligation	6.4%	7.3%	6.4%	7.3%
Discount rate used for estimating interest cost included in net benefit cost incurred	7.3%	5.5%	7.3%	5.5%
Long-term rate of return on plan assets	6.0%	6.0%	NA	NA
Rate of compensation increases	4.0%	4.0%	4.0%	4.0%
Average remaining service period of active employees in years	11	11	12	12

The Corporation's growth rate of health care costs was estimated at 8% (2008 - 8%), with the rate trending to 5% per annum over the next two years. Increasing or decreasing the assumed health care rate cost trend rates by one percentage point would have the following effect for 2009.

	Increase	Decrease
Service and interest cost	$ 99	$ 80
Accrued benefit obligation	$ 753	$ (615)

12. LONG-TERM DEBT

	2009	2008
Secured non-revolving term loan, due October 20, 2014, interest fixed at 5.90%	$ 10,000	$ 12,000
Secured non-revolving term loan, due October 20, 2016, interest fixed at 5.02% to May 30, 2013	27,500	31,000
Secured non-revolving term loans, due November 3, 2011.		
Canadian B.A. rate plus 3.50% (2008 plus 0.75%)	35,500	14,000
U.S. $42,180, LIBOR plus 3.50%	44,310	-
U.S. $24,000, LIBOR plus 0.85%	-	29,232
Secured revolving loans, due November 3, 2011.		
Direct loans, interest at prime plus 3.00%	1,191	-
Direct loans, interest at prime	-	9,282
	118,501	95,514
Less unamortized financing expenses	5,548	330
	112,953	95,184
Current portion	4,232	57,745
	$ 108,721	$ 37,439

Interest on long-term debt amounted to $6,111 and $3,647 in 2009 and 2008 respectively, of which $3,493 and $2,872 respectively was capitalized to the cost of vessels during the construction period.

During 2009, the Corporation completed a two-year $260 million credit facility with a syndicate of six financial institutions. The financial institutions include The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of America, N.A., JP Morgan Chase, N.A., HSBC Bank Canada and Laurentian Bank of Canada.

This credit facility replaces the former $110 million revolving facility previously held by the Corporation. The new facility consists of a $200 million non-revolving term loan facility and a $60 million revolving loan facility. There are no required repayments during the term of the facility.

This financing facility combined with forecasted cash flows should be sufficient to meet the Corporation's existing capital commitments of approximately $149 million and meet the Corporation's working capital requirements. The facility was also used to repay the amount outstanding on the previous revolving facility of approximately $80 million.

Substantially, all of the wholly owned marine assets of the Corporation were provided as collateral for the line of credit. The pricing on the new credit facility is based on the total debt to earnings before interest, taxes and amortization ratio and ranges from 350 to 450 basis points for Canadian B.A. and LIBOR borrowings.

According to the conditions of the credit agreement, the Corporation is subject to certain restrictive covenants with respect to maintaining minimum financial ratios and certain other conditions and at December 31, 2009, the Corporation was in compliance with all of the covenants.

The unamortized financing costs relate primarily to costs incurred on the secured non-revolving term credits and are being amortized over the remaining terms using the effective yield method.

Principal payments required to service the debt are as follows:

2010	$	6,000
2011		87,001
2012		6,000
2013		6,000
2014		6,000
Thereafter		7,500
	$	118,501

13. OTHER LIABILITIES

	2009	2008
Employee future benefits *(Note 11)*	$ **10,286**	$ 9,409
Deferred revenue	**-**	268
	$ **10,286**	$ 9,677

14. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common and preferred shares. At December 31, 2009 and 2008, there were 3,891,211 common shares and no preferred shares issued and outstanding.

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) EARNINGS

The accumulated other comprehensive (loss) earnings balances are as follows:

	2009	2008
Unrealized (losses) gains on translation of financial statements of foreign self-sustaining operations	$ **(9,576)**	$ 23,356
Unrealized loss on hedging instruments, net of income tax of $691 and $1,269	**(1,403)**	(2,245)
Accumulated other comprehensive (loss) earnings	**(10,979)**	21,111
Retained earnings	**429,476**	398,723
	$ **418,497**	$ 419,834

16. SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	2009	2008
Change in non-cash operating working capital		
Accounts receivable	$ 15,775	$ (1,785)
Materials and supplies	(153)	1,143
Prepaid expenses	1,998	1,098
Income taxes recoverable	8,009	(13,646)
Accounts payable and accrued charges	(23,165)	8,791
	$ 2,464	$ (4,399)
Interest paid	$ 14,587	$ 4,896
Income taxes paid	$ 1,211	$ 21,419

17. CAPITAL DISCLOSURES

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

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

Included in capital employed are shareholders' equity and long term-debt including the current portion.

The Corporation's Board of Directors annually reviews the return on capital employed target and also reviews on a quarterly basis the level of dividends to be paid to the Corporation's shareholders.

The Corporation is also subject to financial covenants in its credit agreements that are measured on a quarterly basis. The Corporation is in compliance with all financial covenants.

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

The debt to shareholders' equity ratio at December 31, 2009 and 2008 is as follows:

	2009	2008
Total long-term debt	$ 118,501	$ 95,514
Shareholders' equity	$ 438,733	$ 440,070
Debt to shareholders' equity ratio	0.27 to 1	0.22 to 1

18. COMMITMENTS

The Corporation, including its share of commitments in its joint ventures, has remaining commitments for capital expenditures and commitments at December 31, 2009 and 2008 of $149,057 and $203,438, respectively.

The commitments at December 31, 2009 relate primarily to the purchase of five new product tankers and its share of the cost to construct one maximum seaway size self-unloading vessel. Approximately $83,585 is due for payment in 2010, $63,472 is due in 2011, and $2,000 is due for payment in 2012 and beyond.

The commitments at December 31, 2008 related primarily to the purchase of five new product tankers, and its share of the cost to construct two maximum seaway size self-unloading forebodies.

19. CONTINGENCIES

Income taxes

In 1997, the Corporation sold substantially all of its forest lands and reported for income tax purposes a capital gain of $28,076. The Corporation determined the gain based on an independent appraisal on the forest lands as of December 31, 1971 in the amount of $34,868.

Canada Revenue Agency ("CRA") has audited the 1997 income tax return filed by the Corporation and is in disagreement with the December 31, 1971 valuation of the forest lands used by the Corporation. In 2003, CRA issued a Notice of Reassessment to the Corporation adjusting the valuation to $12,338.

The Corporation believes it has determined the gain correctly and is defending its position. In 2003, the Corporation filed a Notice of Objection with the CRA and in February 2009, it filed a Notice of Appeal with the Tax Court of Canada.

If the Corporation were to be unsuccessful, the estimated tax and accrued interest owing to December 31, 2009 would be approximately $11,000. In 2002, the Corporation deposited $11,000 with the relevant taxation authorities pending the outcome of the reassessment.

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

Guarantees

The Corporation, including those provided by a wholly-owned subsidiary, has issued a letter of guarantee to a foreign shipyard in respect of the contractual obligations related to the construction of a maximum seaway size self-unloading vessel. The guarantee provided is for Euro 2,270 and represents the Corporation's share of the third and fourth installment on the construction of a maximum seaway size self-unloading forebody. The Corporation has received letters of refund guarantee from the shipyards in the amount of Euro 6,811 representing the installments made on the forebody.

The Corporation has also provided a letter of guarantee to Transport Canada in respect of the Corporation's liabilities relating to the payment of certain harbour dues. The guarantee is in the amount of $1,564 with an expiry date of July 2010.

The Corporation legally has a minority interest in Laken Shipping Corporation ("Laken") and time charters marine transportation equipment owned by Laken, which is fully consolidated as a variable interest entity in the Corporation's consolidated financial statements.

Pursuant to the terms of the shareholder agreements and the time charter agreement, the Corporation has indemnified the group owning the majority of the outstanding shares of Laken from any and all losses. The indemnification, which does not provide for a limitation to the maximum to be paid out under the indemnification, expires at the later of the expiration of the time charter agreements and the dissolution of Laken.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Corporation's financial instruments that are included in the Consolidated Balance Sheets are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued charges, long-term debt and the advance and profits due to the non-controlling interest.

Fair value

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued charges approximates their carrying values due to their short-term maturity. The fair value of the amount due to the non-controlling interest approximates its carrying value as the interest rate approximates current market rates for similar debt. The fair value of long-term debt including the current portion is approximately $120,657 compared to the carrying value of $118,501 due to the difference in the rates in the interest rate swap agreements when compared to current market rates for similar instruments with similar terms.

The fair values as defined in Note 3 includes cash and cash equivalents (Level 1) of $12,156 derivative assets (Level 2) of $398 and derivative liabilities (Level 2) of $2,156 as of December 31, 2009.

Derivative financial instruments

The Corporation utilizes interest rate swap agreements on certain term debt instruments to manage risks associated with interest rate movements.

The Corporation also utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet.

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

Risk Management and Financial Instruments

The Corporation is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as of December 31, 2009.

Credit risk

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

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

	Base currency	Canadian equivalent
Canadian dollar balances	$ 2,906	$ 2,906
U.S. dollar balances	$ 8,801	$ 9,250

Canadian dollar cash and cash equivalents are held primarily with a major Canadian financial institution and the risk of default of this institution is considered remote. Cash balances outside of Canada are also held with major financial institutions and are generally kept to a minimum. The U.S. dollar balances relate primarily to the working capital requirements of foreign subsidiaries and commercial arrangements.

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from customers. The maximum exposure to credit risk is represented by the carrying value of accounts receivable on the balance sheet.

The Corporation believes that the credit risk for accounts receivable is limited due to the following reasons:

- 98% of accounts receivable has been outstanding for 60 days or less; of which 72% are current.
- The Corporation has in recent history recorded minimal bad debts;
- The customer base consists of relatively few large industrial concerns in diverse industries and quasi-governmental agencies; and,
- Credit reviews are performed prior to extending credit and reviewed on an on-going basis.

A provision for bad debts is established when it is determined the amount to be collected is lower than the carrying value. The allowance for doubtful accounts at December 31, 2009 and 2008 was not material.

The Corporation has two customers whose revenues exceed 10% of 2009 consolidated revenues on an annual basis. At December 31, 2009, the amounts owing by these two customers represent 20% of the accounts receivable balance. For the year ended December 31, 2008, the Corporation had three customers whose revenues exceed 10% of consolidated revenues on an annual basis. At December 31, 2008, the amounts owing by these three customers represent 24% of the accounts receivable balance.

The Corporation does not consider there is any risk of default based on the financial strength of these customers.

Liquidity risk

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

The Corporation maintains credit facilities, which are reviewed regularly to ensure it has sufficient capital available to meet current and anticipated needs. The total authorized credit facilities at December 31, 2009 were $297,500 consisting of $60,000 in a revolving facility and $237,500 in term facilities. At December 31, 2009, the Corporation had $174,000 available in existing credit facilities.

Substantially all of the wholly owned marine assets of the Corporation were given as collateral for the line of credit.

The contractual maturities of financial liabilities at December 31, 2009 are as follows:

	Within one year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and and accrued charges	$ 55,843	$ -	$ -	$ -	$ 55,843
Dividends payable	772	-	-	-	772
Long-term debt	6,000	93,001	12,000	7,500	118,501
Advances and profits due to non-controlling interest	28,753	-	-	-	28,753
Total	$ 91,368	$ 93,001	$ 12,000	$ 7,500	$ 203,869

Market risk

(a) Fuel prices

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

(b) Interest rate risk

At December 31, 2009, the Corporation did not have any significant cash flow exposure to interest rate movements for its bank loans. Both of the Corporation's term bank loans have interest rates that have been fixed through interest rate swap agreements expiring in 2013 and 2015. In addition to the term loan, the Corporation entered into an interest rate swap agreement in December 2009 on the U.S non-revolving loan of $42,180. The effective date of this agreement is January 13, 2010, and expires on November 3, 2011.These bank loans with fixed interest rates represent 69% of the outstanding debt at December 31, 2009.

The fair values of the interest rate swap contracts are based on amounts quoted by the Corporation's bankers to settle the contracts at a point in time. At December 31, 2009, the interest rate swap agreements had a negative fair value of $2,156. This amount has been recorded in the financial statements in accordance with the Corporation's hedge accounting policy.

(c) Foreign currency exchange risk

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

At December 31, 2009 and 2008, 35% and 34% respectively of the Corporation's total assets were denominated in U.S. dollars.

The Corporation's exposure to foreign currency fluctuations is related to its net investment in self-sustaining foreign subsidiaries and long-term debt denominated in U.S. dollars. The Corporation does not hedge its investments in the subsidiaries as the currency positions are considered long-term in nature. At December 31, 2009, the net investment in U.S. dollar denominated self-sustaining foreign subsidiaries was U.S. $212,102 and the foreign currency denominated long-term debt outstanding was U.S. $42,180.

The Corporation has significant commitments due for payment in U.S. dollars and Euros. The Corporation utilizes foreign exchange forward contracts to manage its foreign exchange risk associated with payments required under ship building contracts with foreign shipbuilders for vessels that will join our Canadian flag domestic dry-bulk fleet. For payments due in U.S. dollars for foreign vessels, the Corporation mitigates the risk principally through U.S. dollar cash inflows and foreign-denominated debt. The notional amount of the foreign exchange forward contracts at December 31, 2009 is Euro 8,122. At December 31, 2009, the foreign exchange forward contracts had a positive fair value of $394 and the embedded derivatives had an unfavourable fair value of $394.

(d) Market sensitivity analysis (after income tax)

Based on the Corporation’s estimates, a ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce net earnings by $924.

Based on the balances at December 31, 2009:

- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would decrease Other Comprehensive Earnings by $21,210.
- A ten-cent strengthening in the Canadian dollar relative to the U.S. dollar would reduce total assets by $24,638.
- A ten-cent strengthening in the Canadian dollar relative to the U.S dollar would reduce total liabilities by $3,579.
- An increase in interest rates of 100 basis points (one percent) would reduce annual net earnings by $246.

For a ten cent weakening in the Canadian dollar relative to the U.S. dollar and a decrease in interest rates of 100 basis points, there would be an equal and opposite impact to the amounts stated above.

21. SEGMENT DISCLOSURES

The Corporation operates through four segments; Domestic Dry-Bulk, Product Tankers, Ocean Shipping and Real Estate.

The Domestic Dry-Bulk marine transportation segment includes the Corporation’s domestic dry-bulk fleet, an interest in two self-unloading vessels, one of which is under construction, one tug and barge and a ship repair and marine engineering business. The domestic dry-bulk fleet operates primarily through the Seaway Marine Transport partnership, which is fully consolidated as a variable interest entity in the Corporation’s consolidated financial statements. The operational and commercial activities of the domestic dry-bulk fleet are pooled with those of an unrelated Canadian ship owner in the partnership. Each partner owns its vessels separately from the other partner. The partnership includes a total of 34 Canadian flagged vessels, 17 of which are wholly owned by the Corporation and two of which are 50% owned by the Corporation. Ten of the 34 vessels in the partnership have been designated as vessels that are not expected to operate in the future. The dry-bulk vessels carry cargoes of raw materials such as coal, grain, iron ore, salt and aggregates and operate throughout the Great Lakes – St. Lawrence Waterway, from the Gulf of St. Lawrence through all five Great Lakes. Twenty-two vessels have self-unloading gear, which enables them to deliver cargoes at locations where there is no shore-side unloading equipment, and twelve bulk carriers, which unload by means of shore-side equipment.

The Product Tankers marine transportation segment includes direct ownership of six, disponent ownership of one and management of the operational and commercial activities of seven Canadian flag tanker vessels. The tankers carry petroleum products on the Great Lakes, the St. Lawrence Seaway and the east coast of North America. It also includes the ownership of one product tanker through a wholly owned foreign subsidiary engaged in worldwide trades. The Product Tanker segment also has five product tankers currently under construction.

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

The Real Estate segment includes the ownership and management of commercial real estate in Sault Ste. Marie, St. Catharines, and Waterloo, Ontario. In Sault Ste. Marie, it manages and owns a retail mall, two office buildings, a residential apartment building and a hotel. In St. Catharines, properties include two commercial plazas, one light industrial building, three office buildings, a 50% interest of another office building and vacant land for future development. In Waterloo, the Corporation owns and manages three commercial office buildings.

The following presents the Corporation's earnings from operations by reportable segment.

		2009		2008
Revenues				
Domestic Dry-Bulk	$	**326,015**	$	487,751
Product Tankers		**75,466**		78,848
Ocean Shipping		**92,620**		97,924
Real Estate		**26,046**		24,391
		520,147		688,914
Earnings from Operations				
Operating earnings net of income tax				
Domestic Dry-Bulk	$	**(1,949)**	$	20,108
Earnings of non-controlling interest - *(Note 1)*		**2,622**		(7,311)
Gain on insurance proceeds on loss *of Algoport*		**2,557**		-
		3,230	-	12,797
Product Tankers		**8,107**		6,673
Ocean Shipping		**15,943**		21,135
Real Estate		**3,437**		5,256
		30,717	-	45,861
Not specifically identifiable to segments				
Net gain (loss) on translation of foreign-denominated assets and liabilities		**3,387**		(4,699)
Financial expense		**(4,941)**		(1,444)
Income tax		**9,682**		1,562
	$	**38,845**	$	41,280

Note 1 - The operating earnings of the non-controlling interest are net of imputed income tax expense.

	2009	2008
Assets		
Domestic Dry-Bulk	$ 194,898	$ 200,471
Product Tankers	259,986	230,623
Ocean Shipping	129,674	157,344
Real Estate	73,993	73,416
	658,551	661,854
Not specifically identifiable to segments		
Current assets	24,268	31,866
Other	11,487	12,372
	$ 694,306	$ 706,092
Additions to Capital Assets		
Domestic Dry-Bulk	$ 33,654	$ 30,473
Product Tankers	51,848	97,054
Ocean Shipping	354	40,060
Real Estate	5,462	2,318
	$ 91,318	$ 169,905
Capital asset additions not involving cash	646	(3,021)
Capital asset additions included in accounts payable and accrued charges	(1,253)	1,840
Total per consolidated statement of cash flows	$ 90,711	$ 168,724
Amortization on Capital Assets		
Domestic Dry-Bulk	$ 14,027	$ 17,028
Product Tankers	9,937	6,141
Ocean Shipping	8,412	6,993
Real Estate	3,727	4,059
	$ 36,103	$ 34,221

The Corporation has interests which carry on most of their operations in foreign jurisdictions. The Corporation's proportionate share of the assets and revenues in foreign jurisdictions at December 31, 2009 and 2008 is as follows:

	2009	2008
Capital assets	$ 221,771	$ 238,057
Revenues	$ 102,149	$ 108,872

Sales outside of Canada, primarily to the United States, relate to vessel operations and is based on the location at which a shipment is unloaded. For the year ended December 31, 2009 sales outside of Canada were $176,909 and $213,812 for 2008.

The Corporation had two customers in 2009 and three in 2008, whose revenues exceeded 10% of consolidated revenues. Sales to these customers are as follows:

	2009	2008
Domestic Dry-Bulk	$ -	$ 95,290
Domestic Dry-Bulk	$ 83,057	$ 82,883
Product Tankers	$ 64,996	$ 68,418

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. Such reclassifications did not impact previously reported net earnings.

FIVE-YEAR SUMMARY

	2009	2008	2007	2006	2005
Revenue					
Domestic Dry-Bulk	$ 326,015	$ 487,751	$ 413,398	$ 400,461	$ 370,689
Product Tankers	75,466	78,848	78,719	79,832	63,954
Ocean Shipping	92,620	97,924	64,793	44,813	51,973
Real Estate	26,046	24,391	23,636	22,887	22,377
	$ 520,147	$ 688,914	$ 580,546	$ 547,993	$ 508,993
Net earnings	$ 38,845	$ 41,280	$ 52,443	$ 42,059	$ 31,476
Earnings from continuing operations	$ 38,845	$ 41,280	$ 52,443	$ 41,575	$ 30,856
Net earnings excluding corporate tax rate changes *(Note 1)*	$ 34,104	$ 41,280	$ 46,873	$ 38,900	$ 31,476
Amortization on capital assets	$ 36,103	$ 34,221	$ 29,432	$ 29,163	$ 28,015
General and administrative expenses	$ 28,456	$ 26,802	$ 24,675	$ 21,450	$ 20,593
Cash flow from operations	$ 60,336	$ 89,975	$ 70,411	$ 82,013	$ 70,007
Dividends paid	$ 6,835	$ 6,455	$ 5,316	$ 4,935	$ 3,797
Capital asset additions					
Domestic Dry-Bulk	$ 33,654	$ 30,473	$ 29,629	$ 5,421	$ 1,466
Product Tankers	51,848	97,054	18,667	30,633	34,950
Ocean Shipping	354	40,060	23,733	27,551	60
Real Estate	5,462	2,318	4,662	2,549	1,455
	$ 91,318	$ 169,905	$ 76,691	$ 66,154	$ 37,931
Net capital assets					
Domestic Dry-Bulk	$ 135,179	$ 120,971	$ 105,796	$ 93,254	$ 103,930
Product Tankers	251,470	222,001	118,944	110,376	84,219
Ocean Shipping	119,911	148,025	86,382	81,893	57,739
Real Estate	72,036	71,093	73,332	71,182	66,050
	$ 578,596	$ 562,090	$ 384,454	$ 356,705	$ 311,938
EBITA					
Domestic Dry-Bulk	$ 18,846	$ 36,570	$ 33,701	$ 30,760	$ 22,789
Product Tankers	22,448	17,583	23,192	27,296	17,822
Ocean Shipping	25,501	27,243	22,150	14,830	19,308
Real Estate	8,827	11,435	10,955	11,155	10,876
	$ 75,622	$ 92,831	$ 89,998	$ 84,041	$ 70,795
Total assets	$ 694,306	$ 706,092	$ 533,508	$ 514,299	$ 469,801
Long-term debt including current	$ 112,953	$ 95,184	$ 13,825	$ 38,282	$ 41,158
Shareholders' equity	$ 438,733	$ 444,070	$ 362,663	$ 333,514	$ 294,019
LTD as % of shareholders' equity	25.7%	21.6%	3.8%	11.5%	14.0%
Return on capital employed *(Note 2)*	6.0%	9.9%	12.3%	11.3%	10.0%
Return on equity *(Note 3)*	8.8%	10.3%	15.1%	13.4%	11.2%
Common Share Statistics					
Common shares outstanding (000)	3,891	3,891	3,891	3,891	3,891
Earnings per share	$ 9.98	$ 10.61	$ 13.48	$ 10.81	$ 8.09
Earnings per share from continuing operations	$ 9.98	$ 10.61	$ 13.48	$ 10.69	$ 7.93
Cash flow from operations per share	$ 15.51	$ 23.12	$ 18.10	$ 21.08	$ 17.99
Quoted market value					
High	$ 84.00	$ 144.20	$ 148.00	$ 127.50	$ 92.00
Low	$ 51.00	$ 48.00	$ 122.00	$ 87.50	$ 70.00
Dividends per share	$ 1.80	$ 1.70	$ 1.40	$ 1.30	$ 1.00
Shareholders' equity per share	$ 112.76	$ 113.10	$ 93.21	$ 85.71	$ 75.56

Note 1. *Net earnings excluding corporate tax rate changes is net earnings before the effect on income tax expense of substantially enacted corporate income tax rate changes.*

Note 2. *Return on Capital Employed is earnings before interest expense and gains or losses on the translation of foreign-denominated long-term assets and liabilities, on an after-tax basis, expressed as a percent of average capital. Capital is long-term debt including the current portion plus shareholders' equity.*

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

Directors

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

Tim S. Dool, CA (3)
St. Catharines, Ontario,
Corporate Director

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

Duncan N. R. Jackman (1) (2) (3) (4) (5)
Toronto, Ontario,
Chairman, President
and Chief Executive Officer,
E-L Financial Corporation Limited

Bruce J. Jodrey (1)
Windsor, Nova Scotia,
Chairman, President
and Chief Executive Officer,
CKF Inc.

Radcliffe R. Latimer (1) (2) (3) (4) (5)
Toronto, Ontario,
Corporate Director

The Honourable Roy MacLaren, P.C. (2) (3) (5)
Toronto, Ontario,
Corporate Director

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

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

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

Greg D. Wight, FCA (4) (5)
St. Catharines, Ontario,
President and Chief Executive Officer,
Algoma Central Corporation

Principal Officers

Radcliffe R. Latimer
Chairman

Greg D. Wight, FCA
President &
Chief Executive Officer

David G. Allen, CA
Vice President, Finance &
Chief Financial Officer

Robert E. Leistner, CA
Vice President,
Algoma Central Properties Inc.

Wayne A. Smith
Senior Vice President, Commercial

Al J. Vanagas, CET
Senior Vice President, Technical

Karen A. Watt
Vice President, Human Resources

William S. Vaughan, BCL
Secretary

Shareholder Information

Principal Banker:
The Bank of Nova Scotia

Auditors:
Deloitte & Touche LLP

Solicitors:
Heenan Blaikie, LLP

The Toronto Stock Exchange Symbol:
ALC

Share Registrar and Transfer Agent:
CIBC Mellon Trust Company
320 Bay Street, P. O. Box 1
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Shareholders' Meeting:
The Annual Meeting of Shareholders will be held at 11:30 a.m., on Friday April 30, 2010, at the St. Catharines Golf & Country Club, 70 Westchester Avenue, St. Catharines, ON

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(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 Seaway Marine Transport Committee

Fleet

Cargo capacity in tonnes

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

Algoma Central Corporation Self-Unloaders

CAPT. HENRY JACKMAN	GL	31,050	
JOHN B. AIRD	GL	31,496	
PETER R. CRESSWELL	GL	31,115	
AGAWA CANYON	GL	24,435	(not in service)
ALGOBAY	GL/ES	34,381	
ALGOLAKE	GL	33,508	
ALGOMARINE	GL	26,548	
ALGORAIL	GL	24,191	
ALGOSOO	GL	32,004	
ALGOSTEEL	GL	26,534	
ALGOWAY	GL	24,486	
ALGOWOOD	GL	32,760	
SAUNIERE	GL/ES	23,805	(not in service)

Algoma Central Corporation Bulk Carriers

ALGOCAPE	GL	27,125	
ALGOISLE	GL	26,527	(not in service)
ALGONORTH	GL	29,210	(not in service)
ALGONTARIO	GL	28,591	(not in service)
TIM S. DOOL	GL	31,182	

Algoma Tankers Petroleum Tankers

ALGOEAST	GL/ES	9,300
ALGOSAR	GL	11,500
ALGOSCOTIA	UO	17,980
ALGOSEA	UO	16,175
ALGONOVA	UO	11,240
ALGOCANADA	UO	11,240
ALGOMA HANSA	UO	16,175
ALGOMA DARTMOUTH	UO	3,569

Vessels Under Construction

ALGOMA NIAGARA	UO	16,500
ALGOMA ATLANTIC	UO	16,500
ALGOMA PACIFIC	UO	16,500
RADCLIFFE R. LATIMER	UO	25,000
ALGOMA TRITON	UO	25,000

Fleet (continued)

Cargo capacity in tonnes

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

Algoma Shipping Inc.
Self-Unloaders

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

Algoma Shipping Inc.
Bulk Carriers

ALGOMA SPIRIT	UO	35,500
ALGOMA DISCOVERY	UO	35,500
ALGOMA GUARDIAN	UO	35,500

Marbulk Canada Inc.
Self-unloaders

AMBASSADOR	UO	36,663
EASTERN POWER	UO	67,833
NELVANA	UO	74,374
PIONEER	UO	36,848
WESER STAHL	UO	46,657

Algoma Central Corporation

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