

ALGOMA CENTRAL CORPORATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Three Months Ended March 31, 2023 and 2022



Your Marine Carrier of Choice™

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General

This Management's Discussion and Analysis ("MD&A") of the Company should be read in conjunction with its Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2023, and 2022 and related notes thereto and has been prepared as at May 3, 2023.

This MD&A has been prepared by reference to the disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information on the Company, including its 2022 Annual Information Form, is available on SEDAR's website at www.sedar.com or on the Company's website at www.algonet.com.

Business Profile

Algoma Central Corporation owns and operates the largest fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway, including self-unloading dry-bulk carriers, gearless dry-bulk carriers and product tankers. Algoma also owns and operates ocean-going self-unloading dry-bulk vessels trading in international markets and a 50% interest in global joint ventures that own a diversified portfolio of dry-bulk fleets operating internationally. In addition to its owned vessels, the Company provides operational management for four vessels; one owned by G3 Canada Limited and three by NovaAlgoma Cement Carriers ("NACC"), a related party.

The Company reports the results of its operations for six business units or segments. The largest is the Domestic Dry-Bulk segment, which includes the Company's 18 Canadian dry-bulk carriers. This segment serves a wide variety of major industrial sectors, including iron and steel producers, aggregate producers, cement and building material producers, salt producers and agricultural product distributors.

The Product Tankers fleet consists of six double-hull product tankers employed in Canadian flag service, two vessels operating under international flag, and a 33% interest in a third internationally flagged vessel. The new international tanker joint venture also includes eight tankers under construction. Customers include major oil refiners, leading wholesale distributors, and large consumers of petroleum products.

The Company's international Ocean Self-Unloaders segment consists of eight ocean-going self-unloading vessels and a 25% interest in a ninth self-unloader. The eight wholly owned self-unloaders are part of the world's largest pool of ocean-going self-unloaders, which at the end of March 31, 2023 totalled 18 vessels.

The Global Short Sea Shipping segment, which consists of the Company's NovaAlgoma joint ventures, focuses on niche marine transportation markets featuring specialized equipment or services. The cement carrier fleet comprises pneumatic cement carriers servicing large global cement manufacturers that support infrastructure projects. The short sea mini-bulker fleet comprises owned ships, chartered vessels, and vessels operated under third party management contracts. The fleet supports the agricultural, cement, construction, energy and steel industries worldwide. The handy-size fleet is an opportunistic sales and purchase vessel platform.

The Investment Properties segment previously consisted of a shopping centre located in Sault Ste. Marie, Ontario which was sold on June 30, 2022.

The Corporate segment consists of the Company's head office expenditures, third party management services and other administrative functions of the Company.

Impact of Seasonality on the Company

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

Important Information About This MD&A

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

Forward-Looking Statements

Algoma Central Corporation's public communications often include written or oral forward-looking statements. Statements of this type are included in this document and may be included in other filings with Canadian securities regulators or in other communications. All such statements are made pursuant to the safe harbour provisions of any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2023 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price and the results of or outlook for our operations or for the Canadian, U.S. and global economies. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to:

- the impact of climate change on markets served by our customers, including the impact of drought conditions on agricultural outputs and the impact of winter conditions on production and/or sale of certain commodities;
- general economic and market conditions in the countries in which we operate;

- our success in maintaining and securing our information technology systems, including communications and data processing from accidental and malicious threats
- our success in securing contract renewals and maintaining existing freight rates with existing customers;
- our success in securing contracts with new customers at acceptable freight rates;
- evolving regulations focused on carbon emissions and ballast water treatment that could require capital investments and increase costs that may not be recoverable from revenues;
- our ability to attract and retain qualified employees;
- interest rate and currency value fluctuations;
- our ability to execute our strategic plans and to complete and integrate acquisitions;
- critical accounting estimates;
- operational and infrastructure risks, including on-going maintenance and operational reliability of the St. Lawrence Seaway and Welland Canal;
- on-time and on-budget delivery of new ships from shipbuilders;
- general political conditions;
- labour relations with our unionized workforce;
- the possible effects on our business of war or terrorist activities;
- disruptions to public infrastructure, such as transportation, communications, power or water supply, including water levels;
- technological changes;
- significant competition in the shipping industry and from other transportation providers;
- reliance on partnering relationships;
- appropriate maintenance and repair of our existing fleet by third-party contractors;
- health and safety regulations that affect our operations can change and be onerous and the risk of safety incidents can affect results;
- a change in applicable laws and regulations, including environmental regulations, could materially affect our results;
- economic conditions may prevent us from realizing sufficient investment returns to fund our defined benefit plans at the required levels;
- our ability to raise new equity and debt financing, if required;
- general weather conditions or natural disasters;
- the seasonal nature of our business; and,
- risks associated with the lease and ownership of real estate.

This should not be considered a complete list of all risks to which the Company may be subject from time to time. When relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements.

The Company does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders in understanding our financial position as at the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes.

For more information, please see the discussion of risks in the Company's Annual Information Form for the year ended December 31, 2022, which outlines in detail certain key factors that may affect the Company's future results. The Annual Information Form can be found on the Company's website at www.algonet.com and on SEDAR's website at www.sedar.com.

Ocean Self-Unloaders

Algoma participates in the world's largest pool of ocean-going self-unloaders (the "Pool"). The segment's commercial results reflect a pro-rata share of Pool revenue and voyage costs (in operating expenses) for the Company's eight 100% owned ships. The costs incurred to operate these ships are recorded in operating expenses. Earnings from the partially owned ship operating in this sector are included in the Company's joint venture, Marbulk. Algoma does not incur selling expenses on ocean self-unloader business, but instead pays a commercial fee to the Pool manager, which is reflected as an operating expense.

Joint Ventures

Joint venture revenues from the Product Tankers, Ocean Self-Unloaders, and Global Short Sea Shipping segments is not included in the consolidated revenue figure. The Company's share of net earnings, adjusted for amortization arising from vessel purchase price allocation and intangibles, is included in net earnings from joint ventures in the Company's consolidated earnings.

Non-GAAP Measures

This MD&A uses several financial measures to assess its performance including earnings before interest, income taxes, depreciation, and amortization (EBITDA), free cash flow, return on equity, and adjusted performance measures. Some of these measures are not calculated in accordance with Generally Accepted Accounting Principles (GAAP), which are based on International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), are not defined by GAAP, and do not have standardized meanings that would ensure consistency and comparability among companies using these measures. From Management's perspective, these non-GAAP measures are useful measures of performance as they provide readers with a better understanding of how Management assesses performance. The non-GAAP measures that are used throughout this report are defined below and can also be referred to in the sections entitled *EBITDA*, *Free Cash Flow*, and *Select Financial and Operational Performance*.

EBITDA

EBITDA is not intended to represent cash flow from operations, and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by IFRS. Management considers EBITDA to be a meaningful measure to assess its operating performance in addition to other IFRS measures. It is included because Management believes it can be useful in measuring its ability to service debt, fund capital expenditures, expand its business and a metric that it is based on is used by credit providers in the financial covenants of the Company's senior secured long-term debt.

Free Cash Flow

Management believes that free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payments of dividends, investing activities and additions of property, plant, and equipment. The Company defines its free cash flow as cash from operating activities less debt service and capital required for maintenance of existing assets.

Select Financial and Operational Highlights

Financial Highlights

			Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022
Reported revenue	\$ 111,604	\$ 85,103	\$ 26,501
Freight revenue ⁽¹⁾	145,413	113,799	31,614
Operating loss	(32,339)	(26,611)	(5,728)
Net loss	(19,640)	(19,571)	(69)
Basic loss per share	(0.51)	(0.52)	0.01
Diluted loss per share	(0.51)	(0.52)	0.01
EBITDA ⁽²⁾	(7,839)	(2,120)	(5,719)
Free Cash Flow ⁽³⁾	(18,238)	(15,948)	(2,290)

	March 31	December 31	
As at	2023	2022	2023 vs 2022
Common shares outstanding	38,595,154	38,001,872	593,282
Total assets	\$ 1,304,929	\$ 1,365,697	\$ (60,768)
Total long-term financial liabilities	\$ 407,791	\$ 402,354	\$ (5,437)

(1) Freight revenue includes our share of freight revenue from our respective joint ventures and excludes revenue from non-marine activities of the Company.

(2) See the section entitled Important Information About This MD&A - EBITDA for an explanation of this non-GAAP measure.

(3) See the section entitled Important Information About This MD&A - Free Cash Flow for an explanation of this non-GAAP measure.

2023 First Quarter Highlights

Financial Highlights - First Quarter 2023 compared to 2022

- Reported revenue increased \$26,501 or 31%, to \$111,604.
- Operating loss increased \$5,728 or 22% to \$32,339 while the net loss increased marginally to \$19,640.
- Net loss includes a \$4,736 gain on the sale of two vessels within the Product Tankers fleet.
- Basic and diluted loss per share of \$0.51 compared to \$0.52.

Operational Highlights

The following table lists key measures of the Company's operating performance for the purpose of measuring the efficiency and effectiveness of our operations. The operational highlights below relate only to our Domestic Dry-Bulk, Product Tankers and Ocean Self-Unloaders segments and does not include the fleets in which we operate under joint ventures.

For the three months ended March 31	2023	2022
Total cargo carried (metric tonne) ⁽¹⁾	1,717,217	1,396,669
Tonne-kilometre travelled ⁽²⁾	1,524,444,682	1,114,336,482
Vessel utilization ⁽³⁾		
Domestic Dry-Bulk	86 %	85 %
Product Tankers	93 %	93 %
Ocean Self-Unloaders	99 %	98 %
Vessel availability ⁽⁴⁾		
Domestic Dry-Bulk	32 %	28 %
Product Tankers	100 %	75 %
Ocean Self-Unloaders	98 %	100 %

(1) Total quantity of cargo in metric tonnes transported during the quarter.

(2) Total cargo tonne-kilometres travelled in the quarter. Calculated as cargo quantity multiplied by the distance in kilometres that the cargo quantity was transported.

(3) Total number of days that vessels earned revenue expressed as a percentage of available operating days.

(4) Total number of operating days expressed as a percentage of the total number of days the vessels were available for use.

EBITDA

The Company uses EBITDA as a measure of the cash-generating capacity of its businesses. The following table provides a reconciliation of net loss in accordance with GAAP to the non-GAAP EBITDA measure for the three months ended March 31, 2023 and 2022, and presented herein:

For the three months ended March 31	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
Net loss	\$ (19,640)	\$ (19,571)	\$ (69)
<i>Adjustments to net loss, excluding joint ventures:</i>			
Depreciation and amortization	15,996	16,745	(749)
Interest expense, net	4,160	4,974	(814)
Gain on sale of vessels	(4,736)	—	(4,736)
Foreign currency (gain) loss	(370)	607	(977)
Income tax recovery	(9,464)	(10,157)	693
<i>Joint venture adjustments:</i>			
Interest expense	1,095	379	716
Foreign exchange loss (gain)	17	(85)	102
Depreciation and amortization	4,951	4,809	142
Income tax expense	152	177	(25)
Loss on sale of vessel	—	2	(2)
EBITDA⁽¹⁾	\$ (7,839)	\$ (2,120)	\$ (5,719)

(1) Please refer to the section entitled Important Information About This MD&A for an explanation of this non-GAAP measure.

Revenues

For the three months ended March 31	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
Reported Revenue	\$ 111,604	\$ 85,103	\$ 26,501
Freight revenue⁽¹⁾			
Domestic Dry-Bulk	\$ 34,499	\$ 24,588	\$ 9,911
Product Tankers	32,622	18,036	14,586
Ocean Self-Unloaders	45,416	41,074	4,342
Global Short Sea Shipping	32,876	30,101	2,775
Total freight revenue	\$ 145,413	\$ 113,799	\$ 31,614

(1) Freight revenue includes our share of freight revenue from our respective joint ventures and excludes revenue from non-marine activities of the Company.

Domestic Dry-Bulk Segment

Financial Performance

			Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022
Revenue	\$ 34,499	\$ 24,588	\$ 9,911
Operating expenses	(58,116)	(42,239)	(15,877)
Selling, general and administrative	(3,570)	(2,994)	(576)
Depreciation and amortization	(6,456)	(6,575)	119
Operating loss	(33,643)	(27,220)	(6,423)
Income tax recovery	8,934	7,232	1,702
Net loss	\$ (24,709)	\$ (19,988)	\$ (4,721)

Operational Performance

			Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022
Volumes (metric tonnes)			
Power Generation	5,532	—	5,532
Iron and steel	786,940	672,650	114,290
Construction	49,671	10,554	39,117
Agriculture	149,670	90,776	58,894
Salt	719,809	617,355	102,454
Total volumes	1,706,090	1,391,335	314,755
Revenue Days	440	387	53
Operating Days	512	453	59

EBITDA

The following table provides a reconciliation of net loss in accordance with GAAP to the non-GAAP EBITDA measure, as reported for the three months ended March 31, 2023 and 2022, and presented herein:

			Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022
Net loss	\$ (24,709)	\$ (19,988)	\$ (4,721)
<i>Adjustments to net loss:</i>			
Depreciation and amortization	6,456	6,575	(119)
Income tax recovery	(8,934)	(7,232)	(1,702)
EBITDA⁽¹⁾	\$ (27,187)	\$ (20,645)	\$ (6,542)

(1) Please refer to the section entitled Important Information About This MD&A for an explanation of this non-GAAP measure.

2023 First Quarter Review

Higher revenue was primarily a result of a 23% rise in volumes, driving a 14% increase in revenue days. Stronger volumes during the quarter were driven by a higher number of vessels operating into January this year, coupled with an earlier start to the navigation season this year. Volumes across all sectors were higher during the quarter but most noticeably in the salt and iron and steel sectors. The winter salt program saw increased tonnage moved despite a mild winter; with very little ice coverage on the Great Lakes, vessels were able to complete these voyages more efficiently. Additionally, our steel industry customers had stronger demand for early season cargoes, which led some vessels to fit out earlier than in 2022.

Operating costs were higher during the quarter due to a 13% increased in operating days, higher fuel costs and higher winter maintenance expenditures.

Outlook

Domestic dry-bulk cargo demand heading into the second quarter is expected to be relatively steady through April and May, with some potential for minor softening in June, which is typically the start of the slowest season for grain shipments. Global iron ore prices do not currently support large additional export volume through the Seaway, which is often used as a replacement for grain during the summer months.

Product Tankers Segment

Financial Performance

For the three months ended March 31			Favourable/ (Unfavourable)	
	2023	2022	2023 vs 2022	
Revenue	\$ 32,081	\$ 18,036	\$ 14,045	
Operating expenses	(25,889)	(15,116)	(10,773)	
Selling, general and administrative	(1,456)	(1,254)	(202)	
Gain on sale of vessels	4,736	—	4,736	
Depreciation and amortization	(3,592)	(3,225)	(367)	
Operating earnings (loss)	5,880	(1,559)	7,439	
Income tax (expense) recovery	(1,513)	412	(1,925)	
Net earnings from investment in joint ventures	119	—	119	
Net earnings (loss)	\$ 4,486	\$ (1,147)	\$ 5,633	

Operational Performance¹

			Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022
Volume (metric tonnes)			
Petroleum products	727	428	299
<i>Total volumes</i>	727	428	299
Revenue days (owned fleet)	604	380	224
Operating days (owned fleet)	650	410	240

(1) The vessels which operate under international joint ventures are excluded from operational performance.

EBITDA

The following table provides a reconciliation of net earnings (loss) in accordance with GAAP to the non-GAAP EBITDA measure, as reported for the three months ended March 31, 2023 and 2022, and presented herein:

For the three months ended March 31			Favourable/ (Unfavourable)	
	2023	2022	2023 vs 2022	
Net earnings (loss)	\$ 4,486	\$ (1,147)	\$ 5,633	
<i>Adjustments to net earnings (loss):</i>				
Depreciation and amortization	3,592	3,225	367	
Income tax expense (recovery)	1,513	(412)	1,925	
Gain on sale of vessels	(4,736)	—	(4,736)	
EBITDA⁽¹⁾	\$ 4,855	\$ 1,666	\$ 3,189	

(1) Please refer to the section entitled Important Information About This MD&A for an explanation of this non-GAAP measure.

2023 First Quarter Review

The increase in revenue was mainly attributable to a 59% increase in revenue days driven by higher customer demand the addition of two international product tankers to the fleet. The impact of the increased demand was most noticeably seen along the East Coast of Canada this winter, where the fleet benefited from two vessels delivering additional cargoes in this area compared to the same period last year. An internationally bare boat chartered vessel, the *Birgit Knutsen*, continues to have a positive impact on revenue; in July, 2022, the Company acquired the vessel as a potential future replacement vessel for its domestic tanker fleet. In December, 2022, two 2007-built product tankers, the *Algoberta* and *Algotitan*, were acquired. The *Algotitan* began domestic operations in early 2023 while the *Algoberta* began 2023 operating in Northwestern Europe.

Operating costs were higher during the quarter primarily as a result of a 37% increase in operating days reflecting the increased customer demand and the continuation of higher fuel costs. Full fleet utilization also impacted higher direct expenses, specifically crew, supply and repair costs. Supply and repair costs were higher mainly due to the increase in operating days this year and in part due to the rise in inflation. Partially offsetting the increase in costs was lower lay-up spending.

During the first quarter of 2023, the *Algoma Hansa* and the *Algonorth* were sold, resulting in a \$4,736 gain. In the case of the *Algonorth*, now named the *Fure Skagen*, the purchaser is a newly formed joint venture in which FureBear holds a two-thirds interest, along with an unrelated party. The results from the joint venture are reflected above in joint venture earnings.

During 2022, Algoma and Furetank AB of Sweden, established a joint venture to be called FureBear, which entered into an agreement to construct eight dual-fuel product tankers. The tankers will be constructed at China Merchants Jinling Shipyard in Yangzhou, China, with delivery expected between 2023 and 2025.

Outlook

We expect customer demand in the segment to remain steady through the second quarter, although energy markets remain volatile due to on-going hostilities in Europe. Vessel utilization is expected to be strong; however, we do expect inflation to impact costs more significantly going forward. The *Algoberta* will commence domestic operations early in the second quarter as seasonal demand picks up, and we also expect to bring the *Birgit Knutsen* into domestic service later in the year, replacing the *Algosea* when she retires.

Ocean Self-Unloaders Segment

Financial Performance

	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
For the three months ended March 31			
<i>Foreign exchange rate average (USD/CAD)</i>	1.3682	1.2663	0.1019
Revenue	\$ 44,385	\$ 40,321	\$ 4,064
Operating expenses	(33,301)	(27,328)	(5,973)
Selling, general and administrative	(551)	(334)	(217)
Depreciation and amortization	(5,581)	(6,551)	970
Operating earnings	4,952	6,108	(1,156)
Net earnings (loss) from investment in joint venture	172	(36)	208
<i>Net earnings</i>	\$ 5,124	\$ 6,072	\$ (948)

Operational Performance

	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
For the three months ended March 31			
Pool Volumes (metric tonnes)⁽¹⁾			
Gypsum	826	827	(1)
Aggregates	1,947	2,183	(236)
Coal	1,842	1,681	161
Other	253	215	38
<i>Total volumes</i>	4,868	4,906	(38)
Revenue days	619	704	(85)
Operating days	624	720	(96)
Off-hire days for dry-docking	96	—	(96)

(1) Pool volumes exclude volumes carried on vessels that were under time charter arrangements in the quarter.

EBITDA

The following table provides a reconciliation of net earnings in accordance with GAAP to the non-GAAP EBITDA measure, as reported for the three months ended March 31, 2023 and 2022, and presented herein:

	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
For the three months ended March 31			
Net earnings	\$ 5,124	\$ 6,072	\$ (948)
<i>Adjustments to net earnings:</i>			
Depreciation and amortization	5,581	6,551	(970)
<i>Joint venture:</i>			
Depreciation and amortization	97	178	(81)
<i>EBITDA⁽¹⁾</i>	\$ 10,802	\$ 12,801	(1,999)

(1) Please refer to the section entitled Important Information About This MD&A for an explanation of this non-GAAP measure.

2023 First Quarter Review

Revenue was higher as a result of increased fuel cost recoveries and slightly higher freight rates. The increased revenue was offset by a 12% decrease in revenue days driven primarily by off-hire days due to dry-dockings on two vessels, the *Algoma Verity* and the *Bahama Spirit*, compared to none last year.

The steady year-over-year volume was mainly driven by demand for gypsum and coal tonnage this quarter. Gypsum volumes reflect higher demand across the United States east coast driven by a strong housing market, partially offset by a weaker construction market on the west coast, and port congestion has improved allowing for increased coal cargoes this year compared to significant port delays in 2022. The segment continues to experience lower aggregate cargoes as the market continues to be impacted by a closure of a quarry in Mexico.

Operating expenses were higher in the first quarter mainly due to increased dry-dock expenditures on the *Algoma Verity* and the *Bahama Spirit* and higher fuel costs. Direct costs also increased as a result of increased repair and supplies costs. These items were offset by a 13% decrease in operating days, primarily driven by the higher number of vessels on dry-dock during the quarter.

Outlook

Demand is expected to remain steady and vessel supply is expected to be tight at the Pool level heading into the second quarter. Aggregate volumes are expected to continue to be impacted by the closure of a quarry in Mexico; the closure has created some uncertainty in the market and can be expected to impact both volumes and trade routes, if it is not resolved. There is some weakness expected to remain in the U.S. residential market, but overall the construction sector demand remains strong as infrastructure projects are picking up. We are expecting costs to continue to be impacted by inflation and global fuel prices are beginning to trend downward, impacting both revenues and operating costs. Three additional vessels in the Algoma fleet will be dry docked over the remainder of 2023 for a total of five dry-dockings this year.

Global Short Sea Shipping Segment

Financial Results Overview

	Favourable/ (Unfavourable)		
For the three months ended March 31	2023	2022	2023 vs 2022
<i>Foreign exchange rate average (USD/CAD)</i>	1.3682	1.2663	0.1019
Revenue	\$ 65,752	\$ 60,202	\$ 5,550
Operating expenses	(47,359)	(43,862)	(3,497)
Selling, general and administrative	(1,593)	(1,358)	(235)
Depreciation and amortization	(9,391)	(8,966)	(425)
Operating earnings	7,409	6,016	1,393
Loss on sale of vessel	—	(4)	4
Interest expense	(2,189)	(757)	(1,432)
Foreign exchange (loss) gain	(34)	169	(203)
Earnings before undernoted	5,186	5,424	(238)
Income tax expense	(304)	(354)	50
Net earnings of joint ventures	1,346	1,207	139
Net earnings attributable to non-controlling interest	(1,916)	(981)	(935)
<i>Net earnings</i>	\$ 4,312	\$ 5,296	\$ (984)
<i>Company share of net earnings above</i>	\$ 2,156	\$ 2,648	\$ (492)
Amortization of vessel purchase price allocation and intangibles	(158)	(148)	(10)
<i>Company share included in net earnings from investments in joint ventures</i>	\$ 1,998	\$ 2,500	\$ (502)

EBITDA

The following table provides a reconciliation of net earnings in accordance with GAAP to the non-GAAP EBITDA measure, as reported for the three months ended March 31, 2023 and 2022, and presented herein:

	Favourable/ (Unfavourable)		
For the three months ended March 31	2023	2022	2023 vs 2022
Company share of net earnings from investments in joint ventures	\$ 1,998	\$ 2,500	\$ (502)
<i>Adjustments to net earnings (company's share):</i>			
Depreciation and amortization	4,854	4,631	223
Interest expense	1,095	379	716
Income tax expense	152	177	(25)
Foreign currency loss (gain)	17	(85)	102
Loss on sale of vessel	—	2	(2)
<i>Company share of EBITDA⁽¹⁾</i>	\$ 8,116	\$ 7,604	\$ 512

(1) Please refer to the section entitled Important Information About This MD&A for an explanation of this non-GAAP measure.

2023 First Quarter Review

The increased revenue was mainly driven by higher revenue in the handy-size and cement fleets. Higher revenue in the cement fleet was primarily attributable to the increase in the size of the fleet this year, having added three cement carriers in the second and third quarters of 2022, steady freight rates, and stable customer demand. This was partially offset by an outage on one large cement vessel, which took the vessel out of service temporarily for repairs. Slightly lower revenue in the mini-bulker fleet, reflecting the decreased fleet size this year, was offset by strong freight rates. In the first quarter of 2022, our handy-size joint venture did not own any vessels; two handy-size vessels were acquired early in the second quarter of 2022.

Operating costs increased mainly as a result of the impact of higher costs in the cement and handy-size fleets. The cement fleet experienced higher winter maintenance costs, driven primarily by the seasonal lay-up of the domestic fleet and increased repair costs for a significant outage on one large cement vessel. Increased costs for the handy-size fleet were driven by the larger fleet size this year. These higher costs were partially offset by lower operating expenses in the mini-bulker fleet due to the reduced fleet size compared to the same period in 2022.

Higher interest rates compared to the first quarter of 2022, resulted in increased interest expense for the joint ventures, although this was partially offset by a reduction in debt levels compared to the prior year.

Outlook

Looking ahead to the second quarter, revenues from cement carriers are expected to be steady, with strong fleet utilization including increased domestic utilization with the fleet returning to operations. On the other hand, rate pressure driven by the on-going economic and geopolitical situation, in the mini-bulker and handy-size fleets has resulted in a rate decrease; rates are expected to be at more traditional levels over the course of the year, although volumes and utilization are not expected to be affected. Lower rates will likely serve to depress resale values, limiting the upside potential of vessel sales but perhaps leading to opportunities to acquire new tonnage.

Operating costs, other than fuel, are expected to reflect the impact of higher inflation as increased costs work their way through our supply chain. In light of increased interest rates, the joint ventures have taken action to reduce the amount of variable rate debt outstanding on ship mortgages and this is expected to remain a focus throughout 2023.

Investment Properties Segment

For the three months ended March 31	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
Revenue	\$ —	\$ 1,535	\$ (1,535)
Operating expenses	—	(1,598)	1,598
Operating loss	—	(63)	63
Interest income	248	—	248
Income tax (expense) recovery	(66)	17	(83)
Net earnings (loss)	\$ 182	\$ (46)	\$ 228

On June 30, 2022, the Company finalized the sale of a shopping centre located in Sault Ste. Marie, Ontario. The shopping centre was the last of the Company's real estate holdings in Sault Ste. Marie. Interest income relates to the interest on the vendor take-back mortgage secured against the shopping centre.

Corporate Segment

For the three months ended March 31	Favourable/ (Unfavourable)		
	2023	2022	2023 vs 2022
Revenue	\$ 639	\$ 623	\$ 16
Operating expenses	(254)	(277)	23
Selling, general and administrative	(4,810)	(3,829)	(981)
Depreciation	(367)	(394)	27
Operating loss	(4,792)	(3,877)	(915)
Foreign currency gain (loss)	370	(607)	977
Interest expense, net	(4,408)	(4,974)	566
Income tax recovery	2,109	2,496	(387)
Net loss	\$ (6,721)	\$ (6,962)	\$ 241

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

Consolidated

Interest Expense

				Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022	
Interest expense on borrowings	\$ 4,623	\$ 4,441	\$ (182)	
Amortization of financing costs	426	402	(24)	
Interest on employee future benefits, net	181	214	33	
Interest capitalized on vessels under construction	(105)	(72)	33	
	\$ 5,125	\$ 4,985	\$ (140)	

Income Taxes

				Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022	
Combined federal and provincial statutory income tax rate	26.5 %	26.5 %	— %	
Net earnings before income tax and net earnings (loss) from investments in joint ventures	\$ (31,393)	\$ (32,192)	\$ 799	
Expected income tax recovery	\$ 8,319	\$ 8,531	\$ (212)	
Increase in recovery resulting from:				
Foreign tax rates different from Canadian statutory rate	1,107	1,617	(510)	
Other	38	9	29	
Actual tax recovery	\$ 9,464	\$ 10,157	\$ (693)	

Earnings from the Company's foreign subsidiaries are taxed in jurisdictions which have nil income tax rates. The Canadian statutory rate for the Company for both 2023 and 2022 was 26.5%. Any variation in the effective income tax rate from the statutory income tax rate is due mainly to the lower income tax rates applicable to foreign subsidiaries, the effect of taxable and non-taxable items that may or may not be included in earnings and changes to income tax provisions related to prior periods.

Contingencies

For information on contingencies, please refer to Note 31 of the Consolidated Financial Statements for the years ending December 31, 2022 and 2021. There have been no significant changes in the items presented since December 31, 2022.

Capital Resources

The Company has cash on hand of \$70,528 at March 31, 2023. Available credit facilities along with projected cash from operations for 2023 are expected to be more than sufficient to meet the Company's planned operating and capital requirements and other contractual obligations for the year.

The Company maintains credit facilities that are reviewed periodically to determine if sufficient capital is available to meet current and anticipated needs. The Company's bank credit facility (the "Facility") comprises a \$75 million Canadian dollar and a \$75 million U.S. dollar senior secured revolving bank credit facility provided by a syndicate of four banks and has been extended to October 11, 2027. The Facility bears interest at rates that are based on the Company's ratio of net senior debt, as defined, to earnings before interest, taxes, depreciation and amortization and ranges from 170 to 325 basis points above bankers' acceptance, adjusted SOFR or EURIBOR rates. The Company has granted a general security agreement in favour of the senior secured lenders and has granted specific collateral mortgages covering the majority of its wholly owned vessels. The Company's real estate assets and certain vessels, including ones that are not wholly owned, are not directly encumbered under this Facility.

The Company is subject to certain covenants under the terms of the Bank Facility and the Notes, including ones with respect to maintaining defined financial ratios and other conditions. As at March 31, 2023, the Company was in compliance with all of its covenants.

Financial Condition, Liquidity and Capital Resources

Cash Flows

				Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022	
Net cash generated from (used in) operating activities	\$ 1,588	\$ (8,709)	\$ 10,297	
Net cash used in investing activities	(31,101)	(9,728)	(21,373)	
Net cash used in financing activities	(43,134)	(6,570)	(36,564)	
Net change in cash	(72,647)	(25,007)	(47,640)	
Effects of exchange rate changes on cash held in foreign currencies	1,207	(779)	1,986	
Cash, beginning of period	141,968	108,942	33,026	
Cash, end of period	\$ 70,528	\$ 83,156	\$ (12,628)	

Investing Activities

Higher net cash used in investing activities during the 2023 first quarter relates to the initial payments to construct two new Ocean Self-Unloaders and a progress payment on one new Equinox Class self-unloader currently under construction within the domestic dry-bulk fleet. The increase was partially offset by the sale of two vessels within the Product Tankers fleet.

Financing Activities

The increase in net cash used in financing activities during the 2023 first quarter is reflective of a \$50,032 special dividend payment paid in January, 2023.

Free Cash Flow

The following table provides a reconciliation of net cash generated from (used in) operating activities in accordance with GAAP to the non-GAAP free cash flow, as reported for the three months ended March 31, 2023 and 2022, and presented herein:

				Favourable/ (Unfavourable)
For the three months ended March 31	2023	2022	2023 vs 2022	
Net cash generated from (used in) operating activities	\$ 1,588	\$ (8,709)	\$ 10,297	
Net debt service repayments	(5,797)	(315)	(5,482)	
Capital required for maintenance of existing assets	(14,029)	(6,924)	(7,105)	
Free cash flow ⁽¹⁾	\$ (18,238)	\$ (15,948)	\$ (2,290)	

(1) Please refer to the section entitled Important Information About This MD&A - Free Cash Flow for an explanation of this non-GAAP measure.

- During the first quarter of 2023, the Company made significant environmental investments in fleet upgrades such as carbon reducing fuel efficiency technology, ballast water treatment system installations and scrubber upgrades.

Normal Course Issuer Bid

Effective March 21, 2023, the Company renewed its normal course issuer bid (the "2023 NCIB") with the intention to purchase, through the facilities of the TSX, up to 1,926,915 of its common shares ("Shares") representing approximately 5% of the 38,538,301 Shares which were issued and outstanding as at the close of business on March 7, 2023 (the "NCIB").

Subject to prescribed exceptions, the Company is allowed to purchase up to 3,173 Shares on the TSX during any trading day, representing approximately 25% of the average daily trading volume of the Shares on the TSX for the previous six calendar months, being 12,695 Shares. Any Shares purchased under the 2023 NCIB are cancelled. Under the current NCIB, 16,484 Shares were purchased and cancelled for a weighted average purchase price of \$15.57 for the three months ending March 31, 2023.

In conjunction with the renewal of the 2023 NCIB, Algoma entered into a new automatic share purchase plan (the "ASPP") with a designated broker to allow for the purchase of its Shares under the 2023 NCIB at times when Algoma normally would not be active in the market due to applicable regulatory restrictions or internal trading black-out periods. Before the commencement of any particular internal trading black-out period, Algoma may, but is not required to, instruct its designated broker to make purchases of Shares under the 2023 NCIB during the ensuing black-out period in accordance with the terms of the ASPP. Such purchases will be determined by the broker in its sole discretion based on parameters established by Algoma prior to commencement of the applicable black-out period in accordance with the terms of the ASPP and applicable TSX rules. Outside of these black-out periods, Shares will continue to be purchasable by Algoma at its discretion under its 2023 NCIB.

The ASPP will commence on the Company's behalf during any quarterly blackout period of the Company and will terminate on the earliest of the date on which: (a) the maximum annual purchase limit under the 2023 NCIB has been reached; (b) Algoma terminates the ASPP in accordance with its terms; or (c) the 2023 NCIB expires. The ASPP constitutes an "automatic securities purchase plan" under applicable Canadian securities laws.

Commitments

The table below provides aggregate information about the Company's contractual obligations as at March 31, 2023 that affect the Company's liquidity and capital resource needs.

	2023	2024	2025	2026	2027	2028 and Beyond	Total
Long-term debt including convertible debentures	\$ 20,000	\$ 69,076	\$ —	\$ —	\$ 27,066	\$ 299,869	\$ 416,011
Capital asset commitments	47,420	92,128	130,323	—	—	—	269,871
Capital asset commitments through joint ventures ⁽¹⁾	31,946	73,272	75,798	—	—	—	181,016
Interest payments on long-term debt	16,041	14,228	12,415	12,415	12,415	76,534	144,048
Employee future benefit special payments	586	781	781	781	—	—	2,929
Leases	76	141	148	83	—	—	448
	\$ 116,069	\$ 249,626	\$ 219,465	\$ 13,279	\$ 39,481	\$ 376,403	\$ 1,014,323

(1) The joint venture commitments above include the construction of eight product tankers. The joint venture has in place a financing arrangement with a Swedish shipping bank, under which and subject to certain conditions, the joint venture will be able to access funding for up to 70% of the outstanding commitments upon delivery of the vessels.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2023. Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, Management has concluded that the Company's disclosure controls and procedures were effective as of March 31, 2023.

Internal Controls over Financial Reporting

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

Management has used the criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's internal controls over financial reporting. Based on this assessment, Management has concluded that the Company's internal controls over financial reporting are operating effectively as of March 31, 2023.

Changes in Internal Controls over Financial Reporting

During the period ended March 31, 2023, there have been no changes in the Company's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Adoption of New and Amended Accounting Pronouncements

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued Definition of Accounting Estimates, which made amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment replaced the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Accounting estimates are developed if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendment clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the current period's Consolidated Statements of Comprehensive Earnings, or the Consolidated Statements of Comprehensive Earnings of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The amendments apply for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The application of this amendment is not expected to have a material impact on the Company's Interim Condensed Consolidated Financial Statements.

Accounting Pronouncements Issued But Not Yet Effective

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Company's Interim Condensed Consolidated Financial Statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In October 2022, the IASB finalised issuance of Classification of Liabilities as Current or Non-Current, which made amendments to IAS 1 Presentation of Financial Statements. The amendment clarifies that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. Classification is unaffected by the expectations that the Corporation will exercise its right to defer settlement of a liability. Lastly, the amendment clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its Interim Condensed Consolidated Financial Statements.



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