



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") is a review of our financial condition and results of operations, is based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers periods prior to and subsequent to the acquisition of Algoma Steel Inc. by Algoma Acquisition Corp., a subsidiary of Essar Steel Holdings Limited, on June 20, 2007 (the "Transaction" or "Acquisition"). On that date, pursuant to a plan of arrangement, Algoma Steel Inc. (the "Predecessor") was acquired by Algoma Acquisition Corp. (the "Successor") incorporated on April 12, 2007 solely for the purpose of the Acquisition. On June 23, 2007, Algoma Steel Inc. and Algoma Acquisition Corp. were amalgamated and continued operating as Algoma Steel Inc. ("New Algoma"). The financial results reported in the consolidated financial statements reflect the financial condition and results of operations of the Successor for the period April 12, 2007 to December 31, 2007 and reflect the results of the business in the period following the Acquisition. Other than activities in connection with the Acquisition, the Successor had no activities prior to the Acquisition. The reported results of operations from January 1, 2007 to June 19, 2007, October 1, 2006 to December 31, 2006, and January 1, 2006 to December 31, 2006 are for Algoma Steel Inc. ("Predecessor").

The terms "Predecessor" or "Algoma", as used in this MD&A, refer to Algoma Steel Inc. and its subsidiaries on a consolidated basis, and the terms "Company", "we", "us" and "our" refer to combined Predecessor and Successor companies, unless the context otherwise requires or it is otherwise indicated. The Successor financial information may not be comparable to the Predecessor financial information as a result of the effect of the revaluation of assets and liabilities to their estimated fair market values at the date of Acquisition as a result of the application of accounting for business combinations. In addition, in this MD&A, we have provided comparative analysis for certain amounts for the years ended December 31, 2006 and 2007. The results for the year ended December 31, 2007 combine the Successor and Predecessor results in that period. Since 2007 has a different basis of accounting as a result of purchase accounting, the 2007 results may not be directly comparable to 2006.

This MD&A is dated as of February 28, 2008 and should be read in conjunction with the 2007 Audited Consolidated Financial Statements and accompanying Notes. This discussion of the Company's business may include forward-looking information with respect to the Company, including its operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as "may," "will," "expect" or similar variations generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties and should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved. Investors are cautioned not to place undue reliance on such information.

This document has been reviewed by the Audit Committee of Algoma's Board of Directors and contains information that is current as of February 26, 2008. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect.

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Overview of the Business

The Company is an integrated steel producer with operations located entirely in Canada. The Company produces sheet and plate products that are sold primarily in Canada and the United States.

The Company's profitability is highly correlated with the level of steel prices which is a major factor causing variation in operating results throughout a period. Raw material and energy costs have also emerged as significant factors in recent years. Industry pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America. Since U.S. markets establish pricing levels, the exchange rate of the Canadian dollar to the U.S. dollar significantly impacts pricing realizations for Canadian producers.

Pricing levels increased in 2004 due to stronger global markets, particularly China, and improved steel demand in North America. Pricing in 2005 was influenced by excess steel inventories at the end of 2004 and weaker North American demand from several market sectors, reaching a low in September 2005 as excess inventories were depleted. Selling prices rose in the fourth quarter of 2005 due to a better balance between supply and demand and rose further in the second quarter of 2006. Overall, average selling prices increased in the third quarter of 2006, but they started to decline near the end of the quarter due to excess steel service center inventories and they continued to decline in the fourth quarter. Pricing remained relatively stable for the first quarter of 2007 with only small increases from the levels reached near the end of the fourth quarter of 2006. Selling prices during the period April 1, 2007 to June 30, 2007 increased on average through the period, however this was fully offset by the strengthening Canadian dollar during the period. Decreased demand in the third quarter of 2007 and further strengthening of the Canadian dollar resulted in lower prices during the period. Pricing remained weak throughout the fourth quarter with only modest increases in December.

The cost of raw materials and natural gas escalated in 2004 and 2005 as input prices responded to the stronger demand. Natural gas costs declined in 2006 from the peaks reached in 2005. Iron ore prices, under a long-term supply agreement denominated in U.S. dollars, increased approximately 85% in 2005 but declined 3.25% in 2006. For calendar 2007, contract prices increased 5.3% from 2006 prices. Coal costs also escalated in 2005 primarily because of spot market purchases due to temporary supply disruptions from the Company's main coal supplier. Coal costs also increased in 2006 due to the renegotiation in the first quarter of new supply agreements at less favorable prices. For calendar 2007, contract coal prices per ton were approximately 8% lower than 2006 coal contract costs. The impact of an increase or decrease in raw material pricing on earnings is delayed by the consumption of opening inventories acquired at the previous year's price.

Acquisition of the Company

The Company entered into an arrangement agreement on April 15, 2007 with Algoma Acquisition Corp., a wholly owned subsidiary of Essar Steel Holdings Ltd. ("Essar") whereby all of the issued and outstanding common shares, options and restricted share units of the Predecessor would be acquired indirectly by Essar for \$56.00 per share. The Transaction was approved by the shareholders at a special meeting of shareholders held on June 11, 2007 and closed on June 20, 2007. Subsequently, the Predecessor's common shares were de-listed from the Toronto Stock Exchange.

The Transaction was accounted for using the purchase method of accounting for business combinations and, accordingly, the Transaction resulted in a new basis of accounting for the Company. The purchase price was allocated on the basis of management's estimate of the fair value of the underlying assets acquired and liabilities assumed. Management retained third party professionals to assist in the determination of the fair value of the underlying assets acquired and liabilities assumed. Independent appraisers were also engaged to assist in determining the fair values of property, plant and equipment, intangible assets acquired and employee future benefit plans. There was no goodwill recorded on the Transaction. In connection with the Transaction, certain Transaction costs were incurred which were not capitalized as part of the purchase price, and have been included in "Transaction related expenses".

As a result of the purchase accounting associated with the Transaction, the assets and liabilities of the Predecessor were recorded by the Successor at their fair values on June 20, 2007. The fair values assigned to the assets (including inventory, property, plant and equipment and identifiable intangible assets) are amortized to income over their estimated useful lives.

Use of Non-GAAP Financial Measures

EBITDA is a non-GAAP financial measure utilized in the MD&A. As there is no generally accepted method of calculating this financial measure, it may not be comparable to similar measures reported by other companies. Readers are encouraged to consider this financial measure in the context of the Company's GAAP results, as provided in the attached audited consolidated financial statements.

EBITDA refers to earnings before interest, taxes, depreciation and amortization, foreign exchange, investment income and premium on redemption of 11% Notes. EBITDA is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles. EBITDA 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 Company's EBITDA may also not be comparable to EBITDA used by other companies which may be calculated differently. The Company considers EBITDA to be a meaningful measure to assess its operating performance in addition to GAAP measures. It is included because the Company believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business. EBITDA is also used by analysts and the Company's lenders as a measure of the Company's financial performance.

We also present certain information in this MD&A on a combined basis which may be non-GAAP financial measures. Information presented on a combined basis results from addition of amounts from financial information reported in Predecessor and Successor periods. Combined amounts are non-GAAP measures because the consolidated financial statements reported by the Predecessor are not comparable in all respects to the consolidated financial statements of the Successor as a result of the acquisition of Algoma by Essar Group at June 19, 2007, which resulted in a comprehensive revaluation of its assets and liabilities and the application of business combinations accounting.

We believe that presenting certain information on a combined basis provides useful information for meaningfully evaluating our operating performance in comparison to Predecessor periods. Additional information is provided in this MD&A for changes resulting from purchase accounting that have significant effect on the comparability between periods.

Fourth Quarter Results

The following table summarizes the operating results of the Successor for the fourth quarter ended December 31, 2007 and for the Predecessor for the same period in 2006:

Consolidated Results of Operations

(in millions of dollars except per ton data)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
(Unaudited)		
Sales	\$ 514.8	\$ 418.4
Cost of sales	(453.2)	(336.4)
Gross margin	61.6	82.0
Gross margin percentage	12.0%	19.6%
Administrative and selling expense	(12.7)	(16.3)
EBITDA (i)	48.9	65.7
Amortization	(51.9)	(15.3)
Income (loss) from operations	(3.0)	50.4
Financial income (expense)	(24.3)	2.0
Foreign exchange gain	8.1	5.0
Income (loss) before income taxes	(19.2)	57.4
Income tax expense (recovery)	(40.5)	7.0
Net income	\$ 21.3	\$ 50.4
Steel revenue per ton shipped	\$ 603	\$ 721
EBITDA per ton shipped	\$ 65	\$ 123

(i) EBITDA is a non-GAAP measure and is defined on page 4 of this report.

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)

Raw steel production	790	651
Steel shipments	759	534

Sales

Sales for the fourth quarter of 2007 were \$514.8 million as compared to Predecessor sales over the same period in 2006 of \$418.4 million. The higher sales in the fourth quarter of 2007 were due to record production and shipment totals, partially offset by product mix changes and significantly lower steel prices. Shipments were 759,000 tons in the quarter, a 42% increase over the same period in 2006. Steel revenue per ton shipped in the fourth quarter of 2007 was \$603 compared to \$721 per ton for the Predecessor in the fourth quarter of 2006. Net steel sales realizations were impacted by product mix changes as plate sales were 17.2% in the quarter as compared to 21.3% for the same period in 2006 and changes in the Canadian and U.S. dollar exchange rates which averaged \$0.98 during the quarter as compared to \$1.14 over the same period in 2006. Since U.S. markets establish pricing levels, a stronger Canadian dollar negatively impacts pricing realizations on both Canadian and U.S. dollar denominated sales.

Details of sales of sheet and plate in the fourth quarter as compared to the Predecessor fourth quarter of 2006 were as follows:

	Q4 2007				Q4 2006			
	Shipments (tons)	% of Total	Sales (millions)	Average Price/ Ton	Shipments (tons)	% of Total	Sales (millions)	Average Price/ Ton
Sheet	628	82.8%	\$ 334	\$ 532	420	78.7%	\$ 262	\$ 624
Plate	131	17.2%	123	945	114	21.3%	123	1,079
Steel Products Sales	759	100.0%	457	\$ 603	534	100.0%	385	\$ 721
Freight			30				19	
Non-steel sales			28				14	
Sales			\$515				\$418	

Sales to Canadian customers totaled 375,000 tons (2006 – 307,000 tons) while sales to US and offshore customers totaled 384,000 tons (2006 – 227,000 tons) representing 49.4% (2006-57.5%) and 50.6% (2006-42.5%) respectively of total tons sold in the quarter. Sales to offshore customers totaled 30,000 tons (2006 – 25,100 tons) in the quarter.

Cost of Sales

Cost of sales in the three month period ended December 31, 2007 was \$453.2 million or \$529 per ton of steel shipped. Cost of sales for the Predecessor over the three months ended December 31, 2006 was \$336.4 million or \$571 per ton of steel shipped.

Cost of sales in dollars was as follows:

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Steel products	\$ 400.9	\$ 305.3
Freight	29.9	19.0
Total steel products	430.8	324.3
Non-steel sales	22.4	12.1
Total	\$ 453.2	\$ 336.4

Cost of sales on a per ton basis was as follows:

	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Steel products	\$ 529	\$ 571
Freight	39	36
Total steel products	568	607
Non-steel sales	30	23
Total	\$ 598	\$ 630

Cost of sales for the fourth quarter of 2007 was \$453.2 million versus \$336.4 million for the fourth quarter of 2006. The increase over the comparable period of 2006 was primarily due to higher shipments. Cost of sales per ton shipped for steel products was \$529 per ton for the fourth quarter of 2007 versus \$571 per ton for the fourth quarter in 2006. The decrease from the comparable period in 2006 was mainly attributable to lower

manufacturing costs resulting primarily from a 21.4% increase in raw steel production, product mix and the effect on U.S. dollar denominated costs of the stronger Canadian dollar.

On a percentage of sales basis, cost of sales related solely to steel products was 88% during the three months ended December 31, 2007 as compared to 80% during the three months ended December 31, 2006 Predecessor period. The increase in cost as a percentage of revenue was mainly attributable to the lower sales returns for the Successor in the fourth quarter of 2007.

A \$0.3 million expense for employees' profit sharing was recorded in the fourth quarter versus \$3.6 million for the fourth quarter of 2006.

Raw steel production for the three months ended December 31, 2007 totaled 790,000 tons versus 651,000 tons for the fourth quarter of 2006 and was a significant contributor to the lower cost of sales per ton in the fourth quarter of 2007.

Administrative and Selling Expense

Administrative and selling expenses totaled \$12.7 million or 2.5% of sales in the fourth quarter of 2007 as compared to \$16.3 million or 3.9% of sales for the fourth quarter of 2006. The lower expenditures in the fourth quarter of 2007 were primarily due to lower stock based compensation costs and lower management bonuses. Administrative and selling expense includes primarily personnel costs, marketing and advertising, information technology costs, professional fees, management travel and stock-based compensation expense.

Amortization

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Amortization of property, plant and equipment	\$ 46.1	\$ 15.3
Amortization of identifiable intangible assets	5.8	-
Total	\$ 51.9	\$ 15.3

Amortization expense in the Successor period of October 1, 2007 to December 31, 2007 was \$51.9 million compared to amortization expense for the Predecessor period of October 1, 2007 to December 31, 2006 of \$15.3 million. In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase to the historical carrying amounts of property, plant and equipment by \$1,211.7 million and the recording of identifiable intangible assets of \$198.4 million. The increase in the carrying value of property, plant and equipment, in addition to the book value that existed at the close of the Transaction, is being amortized over periods ranging from 1 to 40 years. The identifiable intangible assets are being amortized over periods ranging from less than one year to 20 years. There were no intangible assets recorded in the books of either the Successor or the Predecessor prior to the Transaction and, accordingly, no amortization expense.

Financial Income (Expense)

Interest on long-term liabilities in the three months ended December 31, 2007 was \$19.8 million compared to an insignificant amount of interest on long-term liabilities in the Predecessor three months ended December 31, 2006. Interest on short-term liabilities in the three months ended December 31, 2007 was \$4.1 million compared to \$0.5 million in the Predecessor three months ended December 31, 2006. Successor interest expense resulted from acquisition financing that was secured to finance the Transaction.

Investment income for the Successor in the fourth quarter of 2007 was nil compared to \$2.5 million for the Predecessor in the fourth quarter of 2006. The cash and short-term investments of the Predecessor were used in the financing of the Transaction.

Foreign exchange gains in the Successor period of October 1, 2007 to December 31, 2007 were \$8.1 million compared to \$5.0 million in the Predecessor period of October 1, 2006 to December 31, 2006. The gains in the Successor period resulted from gains on U.S. dollar denominated debt and holding gains on U.S. dollar denominated monetary assets and liabilities including accounts receivable, accounts payable and cash. For the Predecessor period October 1, 2006 to December 31, 2006, the gain of \$5.0 million related to the holding gain realized on U.S. dollar denominated monetary assets and liabilities.

The U.S. dollar Notes secured to finance the Acquisition feature several prepayment options. Under Canadian generally accepted accounting principles, the prepayment options are required to be accounted for as embedded call option derivative instruments which require bifurcation and are accounted for at fair value. The embedded call options included in the carrying amount of the Notes have an estimated fair value of nil at December 31, 2007 compared to a \$0.4 million asset at September 30, 2007, resulting in a change in the fair value of embedded derivatives of \$0.4 million which has been recorded in earnings in the fourth quarter of 2007.

Provision for Income Taxes

The fourth quarter income tax provision (recovery) was (\$40.5) million compared to \$7.0 million in the fourth quarter of 2006. The fourth quarter recovery includes a future tax benefit of \$32.1 million related to Federal tax rate reductions which were enacted in the quarter while the 2006 provision included a tax benefit of \$21.3 million (2006 cash tax savings of \$29.0 million) related to \$85.0 million of pension plan prepayments made in December 2006. The following table provides a reconciliation of the statutory tax amounts and rate to the actual provision for each quarter:

(in millions of dollars)	FOURTH QUARTER			
	Successor		Predecessor	
	2007	2006	2007	2006
	\$	%	\$	%
Tax provision (recovery) at the statutory manufacturing and processing rate	\$ (6.5)	34.1	\$ 19.6	34.1
Add (deduct):				
Non-taxable portion of foreign exchange loss	0.7	(3.7)	-	-
Benefit of future Federal tax rate reductions	(32.1)	167.2	-	-
Provision for reassessment of prior tax years	-	-	3.5	6.1
Change in future tax asset valuation allowance:				
Impact of pension expense	-	-	2.8	4.8
Impact of pension funding	-	-	(21.3)	(36.8)
Impact of post-employment expenses	-	-	3.3	5.7
Other	(2.6)	13.3	(0.9)	(1.5)
Actual tax provision (recovery)	\$ (40.5)	210.9	\$ 7.0	12.4

The current portion of the income tax provision (recovery) in the quarter was \$8.5 million versus (\$3.5) million in the fourth quarter of 2006. The effective tax rate for the fourth quarter of 2007 is significantly higher than the Company's statutory manufacturing and processing rate of 34% due to the benefit of the future tax rate reductions, while the 2006 effective rate was significantly lower due to the \$85.0 million of pension plan prepayments.

The Company's 2002 and 2003 taxation years are presently under audit by the Canada Revenue Agency ("CRA"). An adjustment relating to the tax measurement of the discharging of debts under the 2002 financial reorganization has been proposed by the CRA that would reduce the available non-capital losses at the time of the reorganization by \$21.8 million with a corresponding increase in available capital losses. Consequently, the Company has recorded a charge of \$3.5 million to the 2006 tax provision representing the full tax effect of the adjustment. The CRA has completed its review of the Company's assignment of \$160.0 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the financial reorganization. The CRA has proposed that the \$160.0 million be reduced to \$83.2 million and is awaiting the Company's response to their proposal. The Company intends to vigorously defend its position with respect to

the valuation, however if a reassessment is issued and the Company does not prevail through the objection process, the Company's available non-capital losses upon emergence from CCAA would be reduced by \$76.8 million. This would result in an income tax reassessment and cash taxes payable of approximately \$26.0 million plus applicable interest. The Company believes its valuation is supportable and it is too early to assess the outcome of this issue. Consequently, no liability has been recorded in the financial statements.

For the years 2002 to 2007, the Company has filed scientific research and experimental development claims with Canada Revenue Agency (CRA) as follows:

2002	\$53.0 million
2003	\$43.4 million
2004	\$62.8 million
2005	\$68.9 million
2006	\$63.0 million
2007	\$34.5 million

These claims are currently under audit by CRA and prior to the 2002 claim, the Company had no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or \$65.1 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. Since the claims have not had final audit assessment, the Company has only recognized part of the related tax benefit that the Company believes meets the threshold of "reasonable assurance". The total tax benefit recognized to date is \$21.9 million, of which \$2.0 million was recognized in the fourth quarter of 2007. The determination of the amount of tax benefit to recognize requires judgement, and is subject to change based on CRA's audit of the claims.

The long-term future income tax liability of \$317.5 million at December 31, 2007 is comprised primarily of future tax liabilities of \$458.6 million related to differences between tax and book values of property, plant and equipment and intangible assets, offset by future tax assets of \$141.7 million related to pension and post-employment benefit obligations deductible for tax purposes only when funded.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of net future income tax liabilities of \$268.8 million. The increase was primarily attributable to the tax effect of fair value adjustments to property, plant and equipment, inventory, intangible assets and pension and post-employment benefit obligations.

Pension and Post Employment Benefits

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Pension expense	\$ 11.8	\$ 12.5
Post-employment benefit expense	8.1	7.9
Total	\$ 19.9	\$ 20.4

Pension expense in the three months ended December 31, 2007 was \$11.8 million compared to pension expense for the Predecessor three months ended December 31, 2006 of \$12.5 million. Post-employment benefit expense in the three months ended December 31, 2007 was \$8.1 million compared to post-employment benefit expense for the Predecessor three months ended December 31, 2006 of \$7.9 million.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of pension and post-employment benefit liabilities of \$110.7 million and \$107.4 million respectively. The increase was primarily attributable to the recognition of previously unrecorded net actuarial experience

losses and past service costs that were previously deferred and amortized over the expected average remaining service life of the employee group in accordance with GAAP. This resulted in a reduction in the monthly pension and other post-employment benefit expense of \$1.6 million and \$0.5 million respectively in the post-acquisition periods because of the elimination of the Predecessor's amortization of actuarial experience gains and losses and past service costs.

The pension and post-employment benefit expenses in the fourth quarter of 2007 also reflect pension and benefit enhancements resulting from the new collective bargaining agreements that became effective August 1, 2007 and expire on July 31, 2010. These enhancements resulted in an increased pension obligation of \$64.1 million and an increased post-employment obligation of \$6.0 million. The increase in obligations is being amortized to expense over the three year term of the collective agreements.

Net income

Net income for the three months ended December 31, 2007 was \$21.3 million compared to \$50.4 million for the fourth quarter of 2006. The decrease in net income from the fourth quarter of 2006 was mainly due to lower average selling prices, higher amortization expense due to purchase accounting and higher financial expense due to the debt incurred on the Acquisition. This was partially offset by higher shipments, lower cost of sales per ton and lower administrative and selling expense compared to the fourth quarter of 2006 as well as the recognition of a future tax recovery in the fourth quarter of 2007.

EBITDA (i)

The following table shows the reconciliation of EBITDA and net income in accordance with GAAP:

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Net income	\$ 21.3	\$ 50.4
Amortization	51.9	15.3
Interest expense	23.9	0.5
Income taxes	(40.5)	7.0
Foreign exchange loss (gain)	(8.1)	(5.0)
Investment income	-	(2.5)
Change in fair value of embedded derivatives	0.4	-
EBITDA	\$ 48.9	\$ 65.7

EBITDA for the fourth quarter was \$48.9 million compared to \$65.7 million for the fourth quarter of 2006. The decline from 2006 was mainly attributable to lower selling prices, which declined an average of \$118 per ton or 16.4%, partially offset by higher shipments and lower manufacturing costs.

(i) EBITDA is a non-GAAP measure and is defined on page 4 of this report.

Financial Resources and Liquidity

Summary of Cash Flows

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Operating activities:		
Cash flow from operations before changes in non-cash operating working capital	\$ 36.8	\$ (7.6)
Changes in non-cash operating working capital	(16.1)	-
	20.7	(7.6)
Investing activities:		
Acquisition of property, plant and equipment	(27.0)	(27.0)
Sale of 49.9% interest in AELP	82.8	-
Deposit on sale of AELP	44.1	-
Decrease in short-term investments	-	3.5
Proceeds on sale of capital assets	1.3	0.5
	101.2	(23.0)
Financing activities:		
Bank indebtedness	17.3	-
Repayment of bank term loan	(126.9)	-
Other	(0.7)	-
	\$ (110.3)	\$ -
Change in cash during the period	\$ 11.6	\$ (30.6)

Cash Flow From Operating Activities

Cash flow from operations in the fourth quarter of 2007, before changes in non-cash operating working capital, was \$36.8 million as compared to a use of cash of \$7.6 million in 2006. The lower amount in 2006 was due to a prepayment of pension funding of \$85.0 million in the quarter. Excluding this amount, cash flow from operations before changes in non-cash operating working capital in the fourth quarter of 2006 was \$77.4 million. In comparison to this adjusted amount, the cash flow from operations was lower in the fourth quarter of 2007 primarily due to lower earnings.

Changes in non-cash operating working capital in the quarter resulted in a use of cash of \$16.1 million compared to no changes in non-cash operating working capital in the fourth quarter of 2006. The changes in non-cash operating working capital were comprised of the following:

(in millions of dollars)	FOURTH QUARTER	
	Successor 2007	Predecessor 2006
Accounts receivable	\$ (57.4)	\$ 70.6
Inventories	30.9	(55.3)
Prepaid expenses	34.1	13.7
Accounts payable and accrued liabilities	(32.8)	(6.3)
Income and other taxes receivable/payable	9.1	(22.7)
	\$ (16.1)	\$ -

The increase of \$57.4 million in accounts receivable was primarily due to higher sales in the quarter as well as an increase in days sales outstanding from 39.3 days at September 30, 2007 to 42.8 days at December 31,

2007. The decrease in inventories of \$30.9 million in the quarter was mainly due to the higher sales in the quarter and efforts to reduce finished goods and work-in-process inventories. The decrease in prepaid expenses was primarily due to a seasonal reduction in the prepaid amount for iron ore. The change in income and other taxes receivable/payable is a source of cash of \$9.1 million in the quarter. This includes a use of cash of \$9.9 million related to current taxes on the sale of the 49.9% interest in AELP that are recorded in Contributed Surplus.

Cash Flow Used in Investing Activities

Capital expenditures in the fourth quarter of 2007 totaled \$27.0 million, compared to \$27.0 million in the fourth quarter of 2006. Expenditures in the fourth quarter of 2007 included \$19.9 million on the cogeneration facility and \$4.0 million on the commissioning of #6 blast furnace. Expenditures in the fourth quarter of 2006 included \$11.4 million of payments and deposits for equipment and materials associated with the partial reline of #7 blast furnace which was completed in the third quarter of 2007. Investing activities in the fourth quarter of 2007 included \$82.8 million as the proceeds on the sale of 49.9% of Algoma Energy L.P. (AELP) and \$44.1 million received as an irrevocable deposit on the potential future sale of the remaining 50.1% of Algoma Energy L.P. The sale of this remaining portion is subject to customer and lender approval but is expected to occur during 2008.

Cash Flow from Financing Activities

Financing activities in the fourth quarter of 2007 included a repayment of the bank term loan totaling \$126.9 million and an increase in bank indebtedness of \$17.3 million. There were no financing activities in the fourth quarter of 2006.

Annual Corporate Financial Performance

The following table discloses the operating results of the Successor Company for the period from April 12 to December 31, 2007 and the Predecessor Company for the periods January 1 to June 19, 2007 and January 1 to December 31, 2006:

Consolidated Results of Operations

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Sales	\$ 933.7	\$ 911.4	\$ 1,939.7
Cost of sales	(888.2)	(779.1)	(1,486.1)
Gross margin	45.5	132.3	453.6
Gross margin percentage	4.9%	14.5%	23.4%
Administrative and selling expense	(28.5)	(32.2)	(70.4)
Amortization	(112.1)	(30.2)	(58.7)
Income (loss) from operations	(95.1)	69.9	324.5
Transaction related expenses	(2.4)	(21.2)	-
Financial income (expense)	(50.6)	2.0	2.4
Foreign exchange gain (loss)	76.2	(13.4)	1.8
Income (loss) before income taxes	(71.9)	37.3	328.7
Income tax recovery (expense)	74.6	(22.5)	(106.9)
Net income	\$ 2.7	\$ 14.8	\$ 221.8

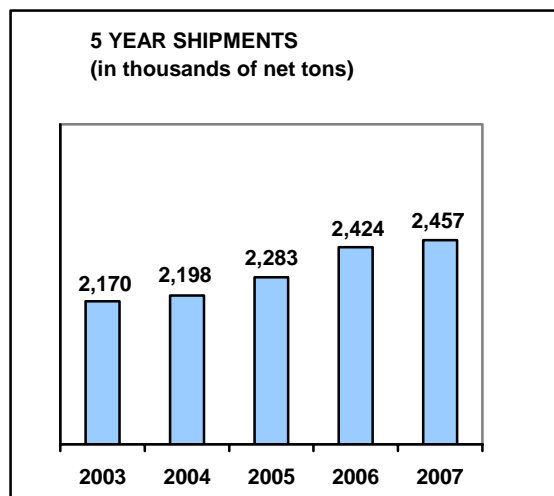
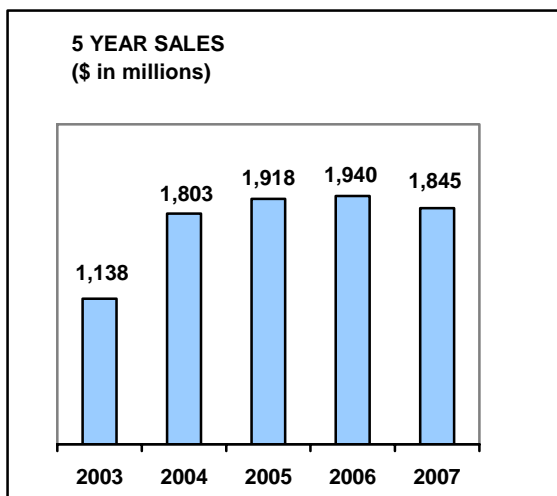
SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)

Raw steel production	1,154	1,184	2,615
Steel shipments	1,262	1,195	2,424

Sales

Combined sales for the Predecessor and Successor periods of 2007 totaled \$1.85 billion on steel shipments of 2.457 million tons as compared to 2006 sales of \$1.94 billion on steel shipments of 2.424 million tons. Pricing for sheet products throughout the year averaged \$585 per ton, a decrease of 11.5% compared to an average of \$661 per ton in 2006. Pricing for plate products remained fairly strong throughout 2007 averaging \$1,014 per ton, but it was approximately 5.6% lower than the \$1,074 per ton achieved in 2006. Overall, the average realized price for steel for 2007 declined 9.3% over 2006, primarily due to the strong Canadian dollar in 2007, which averaged 5.3% higher than in 2006.



The mix between sheet and plate products shifted slightly with plate products accounting for 21.5% of total shipments in 2007 as compared to 20.8% in 2006. Sheet products include hot-rolled and pickled coils, cut-to-length coils, cold-rolled coils and first-stage blanks. Total shipments of sheet products were up 0.5%. Plate products include as-rolled and heat-treated plate, and welded wide flange beams. Shipments of plate products increased 4.7% over 2006 as the Company took advantage of the continuing strength in the plate market. Overall, shipments increased 33,000 tons or 1.4% versus last year despite the #7 blast furnace reline in 2007 which resulted in it being shut down for approximately 52 days in the third quarter. Third quarter shipments in 2007 were approximately 186,000 tons less than in 2006 but this was offset by very strong shipments in the fourth quarter that were 224,000 tons greater than the comparable period in 2006.

Sales Mix

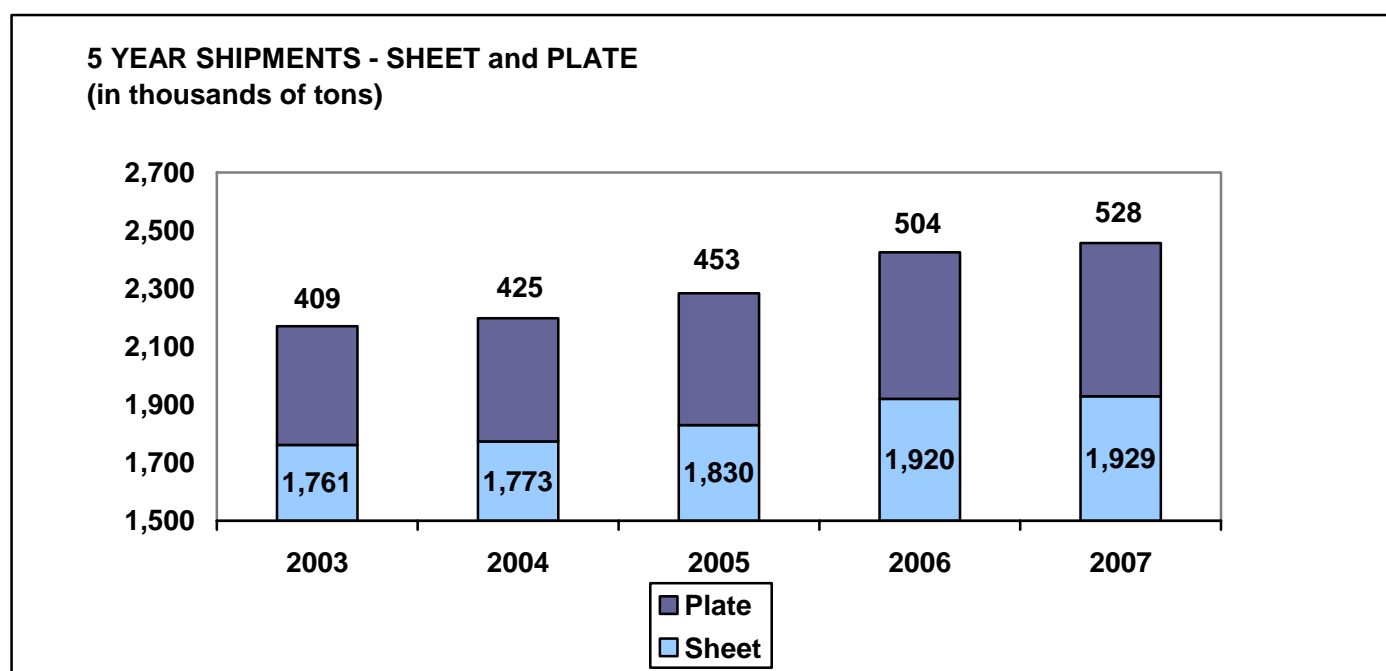
For the years ended December 31	Combined Predecessor and Successor					
	2007		2006		Change	
	Sales (millions)	per ton	Sales (millions)	per ton	Sales (millions)	per ton
Sheet	\$ 1,129.2	\$ 585	\$ 1,269.3	\$ 661	\$ (140.1)	\$ (76)
Plate	535.6	1,014	541.8	1,074	(6.2)	(60)
Freight	101.8	41	85.3	35	16.5	6
Total Steel Products	1,766.6	719	1,896.4	782	(129.8)	(63)
Non-steel Sales	78.5		43.3		35.2	
Total	\$ 1,845.1		\$ 1,939.7		\$ (94.6)	

Non-steel sales were \$78.5 million in 2007 as compared to \$43.3 million in 2006. Non-steel sales include sales of various by-products generated in the manufacturing process. The increase in sales from 2006 relates primarily to an increase in coke sales that totaled \$37.1 million in 2007 as compared to \$13.6 million in 2006 and scrap sales that totaled \$11.1 million in 2007 compared to \$2.5 million in 2006.

Steel Shipments

for the years ended December 31	Combined Predecessor And Successor 2007		2006		Change	
	000's tons	%	000's tons	%	000's tons	%
Sheet	1,929.2	78.5%	1,919.6	79.2%	9.6	0.5%
Plate	528.2	21.5%	504.6	20.8%	23.6	4.7%
Total	2,457.4	100.0%	2,424.2	100.0%	33.2	1.4%

Since 2003, sheet product sales have increased by 168,000 tons or 9.5% and plate product sales have increased 119,000 tons or 29.1%. Flexibility in the manufacturing process allows some production to be switched between sheet and plate in order to meet customer demands and take advantage of stronger sheet or plate markets.



Cost of Sales

Cost of sales in the Successor period April 12 to December 31, 2007 was \$888.2 million and cost of sales for the Predecessor period January 1 to June 19, 2007 was \$779.1 million. The two periods combined represent an increase of 12.2% over 2006 cost of sales of \$1.49 billion. On a percentage of sales basis, cost of sales were 95.1% in the 2007 successor period and 85.5% in the 2007 predecessor period as compared to 76.6% in 2006. Successor and Predecessor periods combined, 2007 cost of sales were 90.4% of sales. The increase in cost of steel products is directly attributable to costs incurred and low production volumes incurred during the blast furnace partial reline. The impact of the partial reline was partly offset by cost savings in raw materials (other than purchased steel), primarily due to the strength of the Canadian dollar. The Successor period also includes an increase in cost of sales due to the impact of purchase accounting on opening inventory values. On the acquisition date of June 20, 2007, the cost of inventory on hand was increased by \$23.0 million to represent the fair value for purchase accounting, thus resulting in higher cost of sales in the Successor period in the amount of \$23.0 million. A reduction in operating income in 2007 resulted in profit sharing expense declining to \$0.8 million versus \$27.3 million for 2006. Cost of non-steel products was \$67.0 million representing an increase of \$31.4 million as a result of increased sales of by-products in 2007 including excess coke

inventories.

Cost of sales is summarized as follows:

for the years ended December 31	Combined Predecessor and Successor 2007		2006		Change per ton	
	per ton	(millions)	per ton	(millions)	\$	%
Steel products	\$ 600	\$ 1,474.7	\$ 552	\$ 1,337.9	\$ 48	8.7%
Profit sharing	1	0.8	11	27.3	(10)	(90.9%)
Freight	41	101.8	35	85.3	6	17.1%
Cost of steel products, excluding the effect of						
inventory revaluation	\$ 642	\$ 1,577.3	\$ 598	\$ 1,450.5	\$ 44	7.4%
Inventory revaluation		23.0		-		
Non-steel products		67.0		35.6		
Total		\$ 1,667.3		\$ 1,486.1		

Blast Furnace Partial Reline

The partial reline of the No. 7 Blast Furnace scheduled for July 2007 lasted 52 days; 21 days longer than the original estimate of 31 days. The shutdown and quenching of the furnace took longer than planned and upon inspection of the furnace interior, the scope of the repair work was expanded. This extension of the shutdown resulted in reduced sales and increased costs in the third quarter of 2007. Due to the inability to produce hot metal and repair work being performed during the shutdown, \$45.8 million of non-inventoried repairs and maintenance expense was included in cost of sales during 2007 (\$19 per ton). As a result of the shutdown, raw steel production was 11% lower in 2007 compared to the 2006 (2,338,000 tons vs. 2,615,000 tons).

Raw Materials

Raw materials represented 54% of costs for steel products in 2007 as compared to 51% in 2006 and include coal, ore, purchased coke, purchased scrap, purchased steel, limestone and alloys. The majority of Algoma's raw material purchases are priced in U.S. dollars and, as a result, costs benefited from the strengthening of the Canadian dollar. The average exchange rate of the Canadian dollar to the U.S. dollar was \$1.0740 in 2007 compared to \$1.1344 in 2006, an appreciation of 5%.

During the year, the Company shipped products manufactured from purchased steel totaling 292,000 tons and representing 13% of costs for steel products. In 2006, the Company shipped 165,000 tons of products manufactured from purchased steel, representing only 6% of costs for steel products. The cost of purchased steel is higher than internally manufactured steel. The extensive use of purchased steel was required during the partial reline in order to meet customer commitments.

Algoma obtains its coal requirements mainly through three suppliers with approximately 66% of the coal held in a consignment inventory in Sault Ste. Marie. Coal consumption in 2007 totaled \$161.8 million (1.42 million tons dry basis), an increase of \$10.9 million from last year's total of \$150.9 million (1.46 million tons dry basis). Year over year changes in coal price do not immediately impact costs due to the consumption of previous year ending inventories. In 2006, coal prices increased by over 100% from 2005 but the impact of the increase was not realized until the third quarter due to a combination of 2005 inventory being consumed and price adjustments related to a contract with our main supplier. In 2007, coal prices declined by approximately 8% from 2006 but the impact of the decline was again not realized until the third quarter. The strong Canadian dollar also reduced coal costs during the second half of 2007 compared to 2006. This partially offset the negative impact that higher priced opening inventories had on the first half of the year. The Company produced 980,077 tons of coke during 2007 as compared to 1,009,300 tons in 2006. Net of furnace coke sales, coal costs attributed to steel products totaled \$139.0 million in 2007 as compared to \$146.3 million in 2006.

Algoma has an exclusive supply agreement with Cleveland-Cliffs Inc. for the supply of iron ore with 9 years

remaining in the 15-year agreement. Iron ore prices under our exclusive supply agreement with Cleveland-Cliffs Inc. for the supply of iron ore did not change significantly compared to 2006. Unit price increases of approximately 5.3% were incurred in 2007 but this was offset by the favourable exchange rate. Consumption of iron ore in 2007 totaled \$279 million or \$82.06 per ton based on 3.4 million tons consumed, a decrease of nearly 11% from 2006 in which the cost of ore totaled \$312 million or \$80.00 per ton based on 3.9 million tons consumed. Production of hot metal decreased 13% or approximately 320,000 tons from last year due to the reline of the blast furnace during the year.

Consumption of alloys totaled \$102 million in 2007 as compared to \$104 million in 2006. The 2% decrease was attributable to the decrease in raw steel production, offset by higher prices on most alloys including nickel, molybdenum and manganese. Increased plate sales as a percentage of total sales also impacted the amount of alloys consumed.

Algoma consumed 102,720 tons of purchased scrap in 2007 at a total cost of \$25 million. This compares to consumption of 158,500 tons of purchased scrap in 2006 at a total cost of \$35 million. Algoma consumed 637,532 tons of scrap during 2007 with 534,812 tons generated from internal sources as compared to 640,791 tons of scrap during 2006 with 482,291 generated from internal sources. During the blast furnace partial reline, Algoma was able to process internal scrap material and build prepared scrap inventory that was consumed ahead of purchased scrap following the reline.

Use of purchased coke totaled 24,000 tons at a cost of \$6 million as compared to 56,500 tons in 2006 at a cost of \$12 million. Purchases are generally made to ensure adequate supply for internal consumption. In 2006, additional purchases were made to ensure that coke sales could be completed under agreements that were in place during 2006 for the sale of coke at favourable prices relative to the spot market. Algoma also engaged in significant coke sales during 2007, but mostly sold its own production. Algoma sold excess inventory of its own coke during 2007 due to the blast furnace partial reline and related lack of consumption in the iron making process.

Employment Costs

The average labour cost per hour, including all benefit costs but excluding profit sharing, decreased by approximately 4% in 2007 primarily due to decreased pension expense, offset by wage and benefit improvements resulting from the new collective bargaining agreements entered into effective August 1, 2007. At the end of 2007, there were approximately 3,300 employees working at Algoma, up from approximately 3,200 at the end of 2006.

The Company has a profit sharing plan in which the majority of the employees participate. Profit sharing costs totaled \$0.8 million in 2007 as compared to \$27.3 million in 2006, due to the decrease in operating income.

Energy

Energy costs include natural gas, purchased electricity, oxygen and other miscellaneous items. The Company's total energy costs declined in 2007 by 2% mainly due to lower natural gas pricing. The average unit cost of natural gas decreased 4% over 2006 and natural gas accounted for approximately 58% of the Company's total energy costs in 2007 compared to 59% in 2006. Algoma can reduce coke requirements by adjusting the fuel mix in the blast furnace displacing coke consumption for natural gas. When the market price of coke exceeds the fuel cost penalty at the blast furnace, the Company will operate on a high natural gas fuel mix. These variables are monitored and adjusted regularly throughout the year. Total natural gas costs were \$102 million in 2007 compared to \$106 million in 2006.

The cost of purchased electricity totaled \$40 million in 2007 as compared to \$42 million in 2006. Total consumption of purchased electricity was up 1% whereas unit costs decreased 5%. The increase in consumption of purchased electricity was primarily due to increased production in our plate & strip operations as the result of increased use of purchased steel.

Praxair Canada Inc. supplies oxygen, argon and nitrogen under a contract that had 7.5 years remaining at the end of December 2007. Algoma's total consumption of oxygen in 2007 was down 12% from 2006 as a result of less raw steel production. The decreased consumption offset a 13% increase in oxygen prices. The higher cost of oxygen per unit is partly attributable to the requirement to source liquid oxygen delivered by truck.

This was necessary to support high production levels in the fourth quarter of 2007. The Company is in discussions with Praxair to expand the current facility on site in order to increase supply levels required with higher production levels.

Freight

Freight costs increased by \$6 per ton in 2007 due to a combination of three factors; a higher percentage of sales was shipped to the United States, a higher percentage of sales was shipped by truck rather than rail, and there were overall increases in shipping rates across all methods of transportation.

Non-steel products

By product sales increased largely due to greater coke sales during 2007. In 2006 cost of coke sales amounted to \$5.8 million compared to \$25.5 million in 2007. Algoma sold excess inventory of its own coke during 2007 due to the blast furnace partial reline and related lack of consumption in the iron making process. Another significant contributor to the increase in non-steel sales is the large amount of scrap sold during 2007. In 2007 Algoma sold over 220,000 tons of various scrap types such as kish, mill scale and steel scrap; compared to only 12,000 tons in 2006. Similar to coke, the blast furnace partial reline and associated reduction in raw steel production provided excess scrap inventory. Scrap sales amounted to \$13.7 million in 2007 (\$2.7 million in 2006).

Administrative and Selling Expenses

Selling, general and administration expenses (“SG&A”) for the combined Predecessor and Successor twelve month period ended December 31, 2007 were \$60.7 million or 3.3% of sales as compared to SG&A over the same period in 2006 for the Predecessor of \$70.4 million or 3.6% of sales. SG&A includes primarily personnel costs, marketing and advertising, information technology costs, professional fees, management travel and stock-based compensation expense. The decrease from 2006 was attributable primarily to significantly lower consulting expenses, decreased stock-based compensation of \$1.9 million and decreased management bonus of \$3.0 million. This decrease was offset by costs of \$2.0 million in the Successor period for retention bonuses related to the Acquisition.

Amortization

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Amortization of property, plant and equipment	\$ 94.6	\$ 30.2	\$ 58.7
Amortization of identifiable intangible assets	17.5	-	-
Total	\$ 112.1	\$ 30.2	\$ 58.7

Amortization expense was \$30.2 million in the Predecessor period of January 1 to June 19, 2007 and \$112.1 million in the Successor period of April 12, 2007 to December 31, 2007 for a combined amortization expense for 2007 of \$142.3 million compared to amortization expense for the Predecessor in 2006 of \$58.7 million. In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amounts of property, plant and equipment of \$1,211.7 million and the recording of identifiable intangible assets of \$198.4 million at the acquisition date. The increase in the carrying value of property, plant and equipment, in addition to the book value that existed at the close of the Transaction, is being amortized over periods ranging from 1 to 40 years. The identifiable intangible assets are being amortized over periods ranging from less than one year to 20 years. There were no intangible assets recorded in the books of either the Successor or the Predecessor prior to the Transaction and, accordingly, no amortization expense.

Transaction Related Expenses

Certain costs incurred by the Predecessor and the Successor relating to the Acquisition are not able to be capitalized as part of the Successor's acquisition cost for the business. Transaction related costs that were expensed were \$21.2 million in the Predecessor period of January 1 to June 19, 2007 and \$2.4 million in the Successor period of April 12 to December 31, 2007 for a total of \$23.6 million. The Predecessor Company incurred \$9.1 million in Transaction fees, including legal, accounting, advisory fees and other costs related to the Transaction which were not eligible to be capitalized and are included in the Predecessor period. In addition, the Predecessor incurred \$6.7 million in severance costs related to the termination of employment contracts that existed with the Predecessor and \$5.4 million in expense related to stock-based compensation settlements. These stock-based compensation costs were for the value of the vested and unvested stock options accounted for using the settlement basis of accounting. As a result of the Transaction, the vesting of these stock-based instruments was accelerated. The previously unrecognized expense related to these instruments was recorded at the closing of the Transaction when the instruments were settled.

The Successor period includes \$2.4 million of expense related to financing for the Transaction.

Financial Expense (Income)

Interest on long-term liabilities in the Successor period of April 12 to December 31, 2007 was \$44.7 million and there was insignificant interest on long-term liabilities in the Predecessor period of January 1 to June 19, 2007. The Predecessor period of January 1 to December 31, 2006 had interest on long-term liabilities of \$0.2 million. Interest on short-term liabilities in the Successor period of April 12 to December 31, 2007 was \$8.5 million and \$1.3 million in the Predecessor period of January 1 to June 19, 2007. The Predecessor period of January 1 to December 31, 2006 had interest on short-term liabilities of \$1.8 million. Successor interest expense resulted from acquisition financing that was secured to finance the Transaction.

Investment income was \$3.3 million in the Predecessor period of January 1 to June 19, 2007 and \$0.3 million in the Successor period of April 12 to December 31, 2007, compared to \$12.3 million for the Predecessor in 2006. The cash and short-term investments of the Predecessor were used in the financing of the Transaction.

Foreign exchange gains in the Successor period of April 12, 2007 to December 31, 2007 were \$75.6 million, resulting primarily from gains on U.S. dollar denominated debt. During the period from July 20, 2007, when the debt was incurred, to December 31, 2007, the Canadian dollar strengthened versus the U.S. dollar by approximately 7%. For the Predecessor period January 1, 2007 to June 19, 2007, there was a foreign exchange loss of \$13.4 million related to the net holding loss realized on U.S. dollar denominated monetary assets and liabilities including accounts receivable, accounts payable and cash. In 2006, the Predecessor had a foreign exchange gain of \$1.8 million related to U.S. dollar denominated monetary assets and liabilities.

The U.S. dollar Notes secured to finance the Acquisition feature several prepayment options. Under Canadian generally accepted accounting principles, certain prepayment options are required to be accounted for as embedded call option derivative instruments which require bifurcation and are accounted for at fair value. The embedded call options included in the carrying amount of the Notes have an estimated fair value of nil at December 31, 2007 compared to an asset value of \$4.9 million when the Notes were issued on June 20, 2007, resulting in an expense of the change in the fair value of embedded derivatives of \$4.9 million in the Successor period of April 12 to December 31, 2007.

Prior to the Transaction, Algoma Acquisition Corp. entered into foreign exchange forward and option contracts to purchase Canadian dollars with U.S. dollars in order to manage the currency exchange risk associated with funding the Canadian dollar purchase price with U.S. dollars. These contracts were not accounted for as hedges and, for the period April 12, 2007 to December 31, 2007, the Successor realized a gain of \$17.0 million and incurred related premium expense of \$9.8 million on these foreign exchange option and forward contracts.

Pension and Post-Employment Benefits

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Pension expense	\$ 20.6	\$ 21.6	\$ 53.2
Post-employment benefit expense	14.7	15.1	31.7
Total	\$ 35.3	\$ 36.7	\$ 84.9

Pension expense was \$21.6 million in the Predecessor period of January 1 to June 19, 2007 and \$20.6 million in the Successor period of April 12 to December 31, 2007 compared to pension expense for the Predecessor in 2006 of \$53.2 million. Post-employment benefit expense was \$15.1 million in the Predecessor period of January 1 to June 19, 2007 and \$14.7 million in the Successor period of April 12 to December 31, 2007 compared to post-employment benefit expense for the Predecessor in 2006 of \$31.7 million.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of pension and post-employment benefit liabilities of \$110.7 million and \$107.4 million respectively. The increase was primarily attributable to the recognition of previously unrecorded actuarial experience gains and losses and past service costs that were previously deferred and amortized over the expected average remaining service life of the employee group in accordance with GAAP. This resulted in a reduction in pension and other post-employment benefit expense in the post-acquisition periods because of the elimination of the Predecessor's amortization of actuarial experience gains and losses and past service costs.

The pension and post-employment benefit expenses in the Successor period also reflect pension and benefit enhancements resulting from the new collective bargaining agreements that became effective August 1, 2007 and expire on July 31, 2010. These enhancements resulted in an increased pension obligation of \$64.1 million and an increased post-employment obligation of \$6.0 million. The increase in obligations is being amortized to expense over the three year term of the collective agreements.

Provision for Income Taxes

The income tax provision (recovery) was \$22.5 million (effective rate of 60.3%) for the Predecessor period of January 1 to June 19, 2007 and (\$74.6) million (effective rate of 103.8%) for the Successor period of April 12 to December 31, 2007 compared with \$106.9 million (effective rate of 32.5%) for the Predecessor in 2006. The effective rate in the Successor period is significantly higher than the Company's statutory manufacturing and processing rate of 34% due to a \$36.5 million tax benefit in respect of future Federal tax rate reductions and \$11.2 million related to the non-taxable portion of unrealized foreign exchange gains. The effective rate for the Predecessor in 2006 was lower than the statutory rate primarily due to tax benefits of \$11.6 million related to future tax rate reductions and \$21.3 million resulting from \$85 million of pension plan prepayments, respectively, offset by increases in the valuation allowance for pension and post-employment benefit obligations. The current portion of the tax provision (recovery) was \$29.1 million for the Predecessor period of January 1 to June 19, 2007 and (\$18.0) million for the Successor period of April 12 to December 31, 2007 compared with \$102.7 million for the Predecessor in 2006. The following table provides a reconciliation of the statutory tax amounts and rate to the actual provision for each period:

(in millions of dollars)	Successor April 12 to December 31, 2007		Predecessor January 1 to June 19, 2007		Predecessor January 1 to December 31, 2006	
	\$	%	\$	%	\$	%
Tax provision (recovery) at the statutory manufacturing and processing rate	\$ (24.5)	34.1	\$ 12.7	34.1	\$ 112.1	34.1
Add (deduct):						
Non-taxable portion of unrealized exchange gains on \$US debt	(11.2)	15.6	-	-	-	-
Impact of future Federal tax rate reductions	(36.5)	50.8	-	-	(11.6)	(3.6)
Provision for reassessment of prior tax years	-	-	-	-	3.5	1.1
Change in future tax asset valuation allowance:						
Impact of pension expense	-	-	-	-	12.8	3.9
Impact of pension funding	-	-	-	-	(21.3)	(6.5)
Impact of post-employment expenses	-	-	5.1	13.7	10.9	3.3
Other	(2.4)	3.3	4.7	12.5	0.5	0.2
Actual tax provision (recovery)	\$ (74.6)	103.8	\$ 22.5	60.3	\$ 106.9	32.5

The Company's 2002 and 2003 taxation years are presently under audit by the Canada Revenue Agency ("CRA"). An adjustment relating to the tax measurement of discharging of debts under the 2002 financial reorganization has been proposed by the CRA that would reduce the available non-capital losses by \$21.8 million with a corresponding increase in available capital losses. Consequently, the Company has recorded a charge of \$3.5 million to the 2006 tax provision representing the full tax effect of the adjustment. The CRA has completed its review of the Company's assignment of \$160.0 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the financial reorganization. The CRA has proposed that the \$160.0 million be reduced to \$83.2 million and is awaiting the Company's response to their proposal. The Company intends to vigorously defend its position with respect to the valuation, however if a reassessment is issued and the Company does not prevail through the objection process, the Company's available non-capital losses upon emergence from CCAA would be reduced by \$76.8 million. This would result in an income tax reassessment and cash taxes payable of approximately \$26 million plus applicable interest. The Company believes its valuation is supportable and it is too early to assess the outcome of this issue. Consequently, no liability has been recorded in the financial statements.

For the years 2002 to 2007, the Company has filed scientific research and experimental development claims with Canada Revenue Agency (CRA) as follows:

2008	\$53.0 million
2009	\$43.4 million
2010	\$62.8 million
2011	\$68.9 million
2012	\$63.0 million
2013	\$34.5 million

These claims are currently under audit by CRA and prior to the 2002 claim, the Company had no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or \$65.1 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. Since the claims have not had final audit assessment, the Company has only recognized part of the related tax benefit that the Company believes meets the threshold of “reasonable assurance”. The total tax benefit recognized to date is \$21.9 million, of which \$10.8 million was recognized in 2007. The determination of the amount of tax benefit to recognize requires judgement, and is subject to change based on CRA’s audit of the claims.

The long-term future income tax liability of \$317.5 million at December 31, 2007 is comprised primarily of future tax liabilities of \$458.6 million related to differences between tax and book values of property, plant and equipment and intangible assets, offset by future tax assets of \$141.7 million related to pension and post-employment benefit obligations deductible for tax purposes only when funded.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of net future income tax liabilities of \$268.8 million. The increase was primarily attributable to the tax effect of fair value adjustments to property, plant and equipment, inventory, intangible assets and pension and post-employment benefit obligations.

Net income

Net income for the Predecessor period of January 1 to June 19, 2007 was \$14.8 million and net income for the Successor period of April 12 to December 31, 2007 was \$2.7 million. The net income for the combined Predecessor and Successor periods in the current year are not comparable to the prior year comparative periods as a result of the impact of purchase accounting and transaction-related costs.

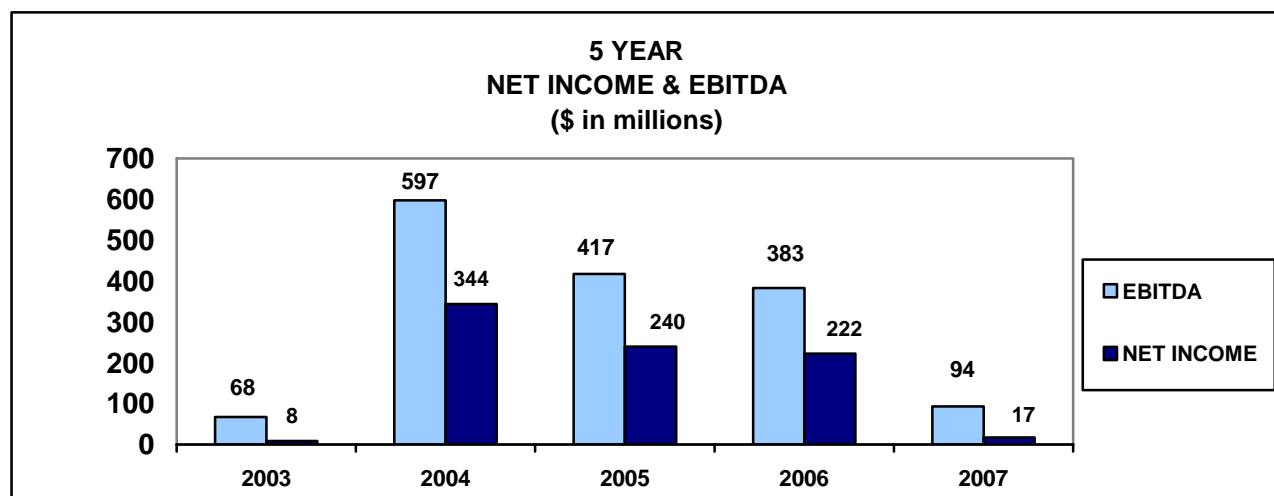
EBITDA (i)

EBITDA was \$14.6 million in the Successor period of April 12 to December 31, 2007 and \$78.9 million in the Predecessor period of January 1 to June 19, 2007 for a combined total of \$93.5 million for 2007 compared to \$383.2 million for 2006. The primary reasons for the decline were lower average steel prices in 2007, the impact of the blast furnace reline work completed in July and August the impact of fair market value inventory changes of \$23.0 million related to the purchase accounting for the Transaction and Transaction related expenses totaling \$23.6 million.

The following table shows the reconciliation of EBITDA and net income in accordance with GAAP:

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Net income	\$ 2.7	\$ 14.8	\$ 221.8
Amortization	112.1	30.2	58.7
Interest expense	53.2	1.3	2.0
Income taxes	(74.6)	22.5	106.9
Foreign exchange loss (gain)	(76.2)	13.4	(1.8)
Investment income	(0.3)	(3.3)	(12.3)
Change in fair value of embedded derivatives	4.9	-	-
Net currency contract gains	(7.2)	-	-
Premium on redemption of 11% Notes	-	-	7.9
EBITDA	\$ 14.6	78.9	383.2

In the past five years the Company has generated EBITDA of \$1.56 billion, or 18% of sales over the same period, and has had positive EBITDA every year since emerging from creditor protection in February 2002.



The significant amounts of EBITDA from 2004 to 2006 was the result of strong steel pricing in those years, increased shipments, increased plate and differentiated product sales as a percentage of total sales, and the success of the Company's margin improvement program. The lower EBITDA in 2007 is primarily the result of the factors noted earlier. The ability to achieve earnings and EBITDA improvements in the future is subject to the risks and uncertainties as outlined in this Management's Discussion and Analysis.

(i) EBITDA is a non-GAAP measure and is defined on page 4 of this report.

Financial Resources and Liquidity

Summary of Cash Flows

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Operating activities:			
Cash flow from operations before changes in non-cash operating working capital	\$ 15.5	\$ 76.3	\$ 263.3
Changes in non-cash operating working capital	62.9	(32.7)	(63.5)
	78.4	43.6	199.8
Investing activities:			
Acquisition of property, plant and equipment	(96.2)	(35.1)	(67.4)
Proceeds on sale of property, plant and equipment	1.6	0.3	1.5
Business acquisition	(1,797.2)	-	-
Restricted cash	(7.8)	-	-
Proceeds on sale of 49.9% interest in AELP	82.8	-	-
Deposit on sale of AELP	44.1	-	-
Decrease in short-term investments	142.1	3.6	116.4
	(1,630.6)	(31.2)	50.5
Financing activities:			
Bank indebtedness	220.5	-	-
Proceeds of long-term notes and bank term loan, net	939.1	-	-
Repayment of bank term loan	(128.1)	-	-
Issuance of shares	531.8	-	-
Advances from related parties, net	8.4	-	-
Redemption of 11% Notes	-	-	(153.3)
Purchase and cancellation of shares	-	-	(240.1)
Other	(3.6)	(0.6)	(0.1)
	\$ 1,568.1	\$ (0.6)	(393.5)
Change in cash during the period	\$ 15.9	\$ 11.8	\$ (143.2)

Cash Flow From Operating Activities

Cash flow from operating activities before changes in working capital was \$76.3 million for the Predecessor period of January 1, 2007 to June 19, 2007 and \$15.5 million for the Successor period of April 12, 2007 to December 31, 2007. Cash flow from operating activities for the combined twelve month period ended December 31, 2007 was \$91.8 million as compared to the Predecessor over the same period in 2006 of \$263.3 million. The Predecessor's 2006 amount includes a pension prepayment of \$85.0 million. Excluding this amount, cash flow from operations before changes in non-cash operating working capital in 2006 was \$348.3 million.

Changes in non-cash operating working capital were comprised of the following:

(in millions of dollars)	Successor April 12 to December 31, 2007	Predecessor January 1 to June 19, 2007	Predecessor January 1 to December 31, 2006
Accounts receivable	\$ (8.3)	\$ (11.4)	\$ 40.2
Inventories	113.9	11.5	(98.9)
Prepaid expenses	33.3	(31.1)	(1.1)
Accounts payable and accrued liabilities	(45.1)	59.2	(5.1)
Income and other taxes receivable/payable	(30.9)	(60.9)	1.4
	\$ 62.9	\$ (32.7)	\$ (63.5)

Inventories declined \$11.5 million in the Predecessor period of January 1 to June 19, 2007 and \$113.9 million in the Successor period for a total decrease in 2007 of \$102.4 million, after eliminating the effect of the inventory revaluation of \$23.0 million that occurred as a result of the Transaction. This decrease was a result of a Company effort to reduce inventory and improve its working capital position, as well as strong sales in the fourth quarter of 2007. In 2006, there was an increase in inventories of \$98.9 million, primarily due to increases in slab and coal inventories.

The change in income and other taxes payable/receivable in the combined Predecessor and Successor periods of 2007 was a use of cash of \$91.8 million, compared to a source of cash of \$1.4 million for the Predecessor in 2006. The 2007 amount includes a use of cash of \$9.9 million related to current taxes on the sale of the 49.9% interest in AELP that are recorded in Contributed Surplus, and the remainder was primarily due to the payment of outstanding 2006 taxes in 2007 and expected recoveries of prior year taxes recognized in 2007.

Cash Flow Used in Investing Activities

Cash flow used in investing activities in the Successor period of April 12, 2007 to December 31, 2007 was \$1,630.6 million, including capital expenditures of \$96.2 million and the Acquisition of the Company for \$1,797.2, offset by proceeds on the sale of 49.9% of AELP of \$82.8 million, a deposit from a related party on the potential sale of the remaining 50.1% of AELP of \$44.1 million and a decrease in short-term investments of \$142.1 million. Capital expenditures during the period included approximately \$44.8 million related to the reline of #7 Blast Furnace and \$27.1 million related to the Algoma Energy L.P. cogeneration project. Cash flow used in investing activities for the Predecessor period of January 1, 2007 to June 19, 2007 was \$31.2 million which included capital expenditures of \$35.1 million and a decrease in short-term investments of \$3.6 million. Capital expenditures in the period included \$12.5 million on the reline of #7 Blast Furnace, \$4.0 million on the cogeneration project and \$7.4 million on coke battery through wall repairs. Cash flow provided by investing activities for the Predecessor period January 1, 2006 to December 31, 2006 was \$50.5 million due to a decrease in short-term investments of \$116.4 million, offset by capital expenditures of \$67.4 million.

Cash Flow From Financing Activities

Cash flow from financing activities in the Successor period of April 12, 2007 to December 31, 2007 was \$1,568.1 million consisting of long-term debt financing related to the Acquisition of \$939.1 million, the issuance of shares related to the Acquisition of \$531.8 million and an increase of bank indebtedness of \$220.5 million, offset by repayments of the bank term loan totaling \$128.1 million. Cash flow from financing activities for the Predecessor period January 1, 2007 to June 19, 2007 was a use of cash of \$0.6 million. Cash flow used for financing activities for the Predecessor period of January 1, 2006 to December 31, 2006 was \$393.5 million which included \$153.3 million paid to redeem the 11% Notes and \$240.1 million related to the purchase and cancellation of shares.

Contractual Obligations

(millions of dollars)	Less Than 1				
	Total	Year	1 – 3 Years	4 – 5 Years	After 5 Years
Bank indebtedness (1)	\$220.5	\$220.5	-	-	-
Long-term debt (2)	766.7	1.6	\$ 6.4	\$ 6.4	\$752.3
Operating leases	9.8	4.2	3.8	1.3	0.5
Purchase obligations (2)	2,859.0	491.0	391.8	391.8	1,584.4
AELP purchase obligations (2)	42.9	41.2	1.7	-	-
Other obligations	9.1	0.5	1.8	0.5	6.3

(1) Assumes the outstanding balance on the revolving credit facility is repaid in full within the next twelve months.

(2) Assumes December 31, 2007 Canadian/U.S. dollar exchange rate remains constant.

Off Balance Sheet Financing

The Company's off balance sheet financing arrangements are limited to operating lease contracts for equipment and premises and natural gas swap contracts that were in a liability position at December 31, 2007 with a fair value of \$0.3 million. As disclosed in note 18 to the consolidated financial statements, minimum annual lease payments under operating leases for fiscal 2008 are \$4.2 million.

Related Party Transactions

The Company's major shareholder, Essar, and its affiliates are related parties.

Prior to the Acquisition, the Successor entered into foreign exchange forward and option contracts to purchase Canadian dollars with U.S. dollars as disclosed in note 4. The cost of these contracts was paid by Essar, resulting in a payable to Essar by the Company of \$8.2 million at December 31, 2007. This balance was reduced throughout the year by \$0.2 million for services provided by the Company on behalf of Essar and expenses incurred by the Company on behalf of Essar which are recorded at the exchange amounts. This liability is unsecured and non-interest bearing with no specific repayment terms.

On December 28, 2007, one of Essar's affiliates purchased 49.9% of the Company's interest in AELP for consideration of \$82.8 million. The affiliate also provided the Company an irrevocable deposit of \$44.1 million for the potential future purchase of the remaining 50.1% of AELP.

Net assets of AELP at the date of the transaction (in \$ millions):

Construction in progress	\$ 32.8
Intangible asset – customer contract	56.6
Accounts payable and accrued liabilities	(8.5)
Future income tax liabilities	(4.2)
	\$ 76.7

Construction in progress includes capitalized interest of \$0.7 million at December 31, 2007 (Predecessor 2006 – nil).

The related party transaction has been accounted for at the carrying amount and the excess consideration paid over the 49.9% share of net assets of AELP has been recorded as contributed surplus. The total proceeds of \$82.8 million have been recorded as non-controlling interest of \$38.3 million and contributed surplus of \$44.5 million. Contributed surplus has also been adjusted by current taxes of \$9.9 million offset by an adjustment to the future tax liability of \$11.0 million.

In addition, the affiliate has paid the Company an irrevocable cash deposit of \$44.1 million for the potential

purchase of the remaining 50.1% of AELP, which is conditional on the approval of AELP's customer and the Company's lenders.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in note 3 to the consolidated financial statements. Some of these accounting policies require management to make estimates and assumptions about matters that are uncertain at the time the estimates and assumptions are made. Management believes that the estimates are reasonable; however, different estimates could potentially have a material impact on the Company's financial position or results of operations.

Purchase price allocation

We have accounted for the acquisition of the Predecessor by the purchase method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on estimated fair value at the time of the acquisition. The determination of fair value of assets often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired requires a high degree of judgment, and include estimates of replacement costs and estimates of remaining lives of acquired assets. Determination of the fair value of acquired intangible assets and liabilities assumed requires estimates and judgments as to future cash flows, which are subject to estimation error. Should cash flows or useful lives of assets differ from our estimates, this may necessitate revisions to the carrying value of the related assets and liabilities acquired and may impact net income in future periods.

Allowance for Doubtful Accounts Receivable

The Company is subject to credit risk with respect to its accounts receivable and provides an allowance for its estimate of those accounts receivable that will not be collected. The Company mitigates credit risk by following a process of credit evaluations for customers and potential customers. When estimating an appropriate allowance for doubtful accounts receivable, management considers each customer's historical aging and probability of default, general economic conditions and industry trends. To the extent that management's estimate is incorrect, bad debt expense and accounts receivable may be higher or lower than the amounts recorded. Credit losses incurred in 2006 and 2007 have been insignificant. As a percentage of year-end accounts receivable, the allowance for doubtful accounts was approximately 1.2% at December 31, 2007 (2006 – 0.9%).

Inventory Valuation

Inventories are valued at the lower of average cost and net realizable value. Average cost is comprised of direct costs and an allocation of production overheads for finished goods and work in process.

The valuation of inventories requires a number of estimates to be made including some inventory quantities, inventory quality, condition, and obsolescence. These determinations require management to exercise judgment. Inventories are generally valued at cost, subject to adjustments required under certain circumstances to reflect net realizable value. Judgment is required in determining the appropriate market value of finished product inventory for purposes of assessment of the recoverability of costs. Cyclical changes in selling prices and/or input costs can result in material adjustments being made to the carrying value of finished product inventory. In addition, certain inventories, including coal, limestone, iron and steel scrap, are measured using quantitative estimation techniques that involve judgments.

Intangible Assets

The Company assigns value to intangible assets acquired in a business combination. The value assigned to intangible assets such as customer relationships, order backlogs and in-process research and development is determined by estimating future cash flows, discount rates, rates of attrition and useful lives of acquired intangible assets. As needed, independent external appraisers are engaged in assisting management to determine the appropriate fair values to be assigned to the intangible assets. Fair values are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates that reflect varying amounts of perceived risk. As the estimates of future cash flows, discount rates and attrition rates used to value and test the intangible assets for impairment are based on future events, any changes from

the estimated amounts could have an impact on the annual impairment test and carrying value of the intangible assets.

Finite lived intangible assets are amortized on a straight-line basis over their estimated remaining useful lives, as follows:

Customer relationships	Over expected life, ranging from 12 to 14 years
Technology	Over expected useful life, ranging from 5 to 10 years
In-process research and development	Over expected useful life, ranging from 5 to 10 years
Supply agreements	Over terms of specific agreements, ranging from 1 to 20 years
Order backlogs	Over expected completion period

Finite lived intangible assets which are subject to amortization are evaluated for impairment when events or conditions indicate that the carrying value may be impaired by comparing the carrying value to future undiscounted cash flows. For intangible assets with infinite lives and which are not amortized, an impairment test is performed at least annually which compares the carrying value of intangible assets to fair value. If impairment is determined to have occurred, an impairment loss is recognized for the excess of the carrying amount of the intangible asset over its fair value.

Income Taxes

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure and assessing the future tax effect of temporary differences in the tax basis of assets and liabilities and their reported amounts in the financial statements. These temporary differences, together with income tax loss carry-forwards, result in future income tax assets and liabilities, which are recorded on the balance sheet. The Company assesses the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery is not "more likely than not," a valuation allowance is established. Under Canadian GAAP, the Predecessor was required to record the benefit of unrecorded tax assets existing at the time of the financial reorganization as direct credits to contributed surplus when they were realized. Any change in the valuation allowance in respect of tax assets that have arisen since the 2002 financial reorganization were included as an expense or benefit within the tax provision on the consolidated income statement.

Judgement is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the future income tax assets. In assessing the potential realization of future income tax assets, management considers whether it is "more likely than not" that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the Company generating sufficient future taxable income during the period in which the future income tax assets are expected to reverse or expire. The Company's estimate of its tax loss carry-forwards, after giving effect to the financial reorganization in 2002, is currently under review by the Canada Revenue Agency and may be subject to change. As outlined above, a \$10 million reduction in the valuation of the common shares would result in an income tax reassessment of approximately \$3.4 million. The Company believes its valuation is reasonable and has not provided for any possible reassessment in the financial statements.

Scientific Research and Experimental Development Claims

For the years 2002 to 2007, the Company has filed scientific research and experimental development claims with Canada Revenue Agency (CRA) as follows:

2002	\$53.0 million
2003	\$43.4 million
2004	\$62.8 million
2005	\$68.9 million
2006	\$63.0 million
2007	\$34.5 million

These claims are currently under audit by CRA and prior to the 2002 claim, the Company had no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or \$65.1 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. The claims have not had final audit assessment and the Company has only recognized part of the related tax benefit that management believes meets the threshold of “reasonable assurance”. The total tax benefit recognized to date is \$21.9 million, of which \$10.8 million was recognized in 2007. The determination of the amount of tax benefit to recognize requires judgement, and is subject to change based on CRA’s audit of the claims.

Long-lived Assets

On an annual basis, the Company reviews whether there are any indicators of impairment of its long-lived assets. If such indicators are present, the Company assesses the recoverability of the long-lived assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to net income.

Employee Future Benefits

The Company provides pensions and post-retirement benefits including health care, dental care and life insurance to 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 Company’s actuaries in calculating such amounts. Those assumptions are disclosed in notes 11 and 12 to the Company’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, 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 reflected in actuarial gains or losses as disclosed in notes 11 and 12 to the consolidated financial statements. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company’s employee benefit obligations and future expense.

Future Environmental Remediation Liabilities

Included in “Other long-term liabilities” on the Company’s consolidated balance sheet is \$7.4 million related to future environmental remediation liabilities. These liabilities primarily relate to remediation required on land owned by the Company that is no longer used in the Company’s operations. Remediation costs that can be reasonably estimated are recorded based on the Company’s best estimates. These estimates could be affected by changes in the remediation process, escalation in capital and/or operating costs, and other factors. The timing and amount of these future expenditures are subject to significant judgement.

More specifically, in 2006, the Company filed a mine closure plan respecting its former iron ore mine in Wawa. Financial assurance for future planned activities is also required as an integral part of the closure plan submission. Financial assurance of \$7.4 million has been provided to the Province of Ontario in the form of a letter of credit.

Derivative Financial Instruments

To manage risks associated with future variability in cash flows attributable to certain commodity purchases, the Company periodically utilizes derivative instruments. The Company uses physical delivery contracts and natural gas swap contracts with maturities of twelve months or less to manage risks associated with changing natural gas prices. The Company has also utilized steel swap contracts with maturities of twelve months or less to manage the risks associated with future variability in steel prices. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Where hedge accounting is intended to be used, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the

derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. Where hedging instruments are not demonstrated to be highly effective or when hedge accounting is not used, these derivative instruments are recorded at fair value on the balance sheet with unrealized gains and losses recorded in earnings as they occur.

Changes in Accounting Policies

On January 1, 2007, the Predecessor Company retroactively adopted, without restatement of prior periods, CICA Handbook Section 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3861, “Financial Instruments – Disclosure and Presentation”, Section 3855, “Financial Instruments – Recognition and Measurement” and Section 3865, “Hedges”.

Section 1530, “Comprehensive Income”, introduces the concept of comprehensive income, which consists of Net Income and Other Comprehensive Income (OCI). OCI represents changes in Shareholders’ Equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses resulting from changes in fair value of certain financial instruments. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income, which is presented as a new category of Shareholders’ Equity on the Consolidated Balance Sheet. Section 3251, “Equity”, replaces Section 3250, “Surplus”, and incorporates amendments resulting from the issuance of Section 1530.

Section 3855, “Financial Instruments – Recognition and Measurement”, and Section 3861, “Financial Instruments – Disclosure and Presentation”, establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives and related disclosures. Section 3855 requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Held-for-trading financial instruments are subsequently measured at fair value and changes in fair value are recognized in net income in the period in which they occur. Available-for-sale financial instruments are subsequently measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired, at which time, the amounts would be recognized in net income. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost.

Upon adoption of Section 3855, the Company designated its cash and cash equivalents and short-term investments as held-for-trading and its accounts receivable as loans and receivables. Accounts payable and accrued liabilities were designated as other financial liabilities.

Section 3865, “Hedges”, specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Prior to the adoption of these new standards, the Company accounted for its natural gas swap contracts using hedge accounting. On the transition to the new standards, hedge accounting has not been used to account for these swaps. At January 1, 2007, these natural gas swap contracts had an unrecorded fair value liability of \$1.3 million. At December 31, 2007 natural gas swap contracts had a fair value liability of \$0.3 million. The Company also utilizes steel swap contracts, but these were not accounted for as hedges, so the adoption of the new standards had no effect on the accounting for these derivatives. There were no steel swap contracts outstanding at December 31, 2007.

The adoption of these new standards resulted in the following changes for the Predecessor at January 1, 2007: the natural gas contracts were of a type that could qualify for hedge accounting under Section 3865 and consequently, a \$0.9 million charge was recorded in accumulated other comprehensive income; a \$0.4 million increase in future income tax assets; and a \$1.3 million increase in liabilities for the natural gas swap liability. For the three month period ended March 31, 2007, the Company reclassified a loss of \$0.9 million, net of \$0.3

million in related income taxes, into earnings. This represents the portion of the unrealized losses on the natural gas swap contracts deferred in accumulated other comprehensive income at the transition date that were realized during the period. Unrealized transition date losses of \$0.3 million that were included in accumulated other comprehensive income at March 31, 2007 were reclassified into earnings by June 19, 2007.

The Company selected January 1, 2003 as its transition date for separation of embedded derivatives in financial instruments or contracts. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. Certain contracts and instruments entered into prior to this transition date and not subsequently modified have not had embedded derivatives separated.

Transaction costs related to the issuance of debt are recorded as a component of the carrying amount of the related instrument on issue and are amortized to income using the effective interest rate method.

Impact of New Accounting Pronouncements on Future Reporting Periods

In December 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments Disclosure" and Section 3863, "Financial Instruments Presentation".

Section 1535 establishes guidelines for the disclosure of information regarding a business' capital and how it is managed. The standard requires enhanced disclosures with respect to (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Section 3862 and Section 3863 replace Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

The new Section 3031, "Inventories", was issued in June 2007 and will replace existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the costs to purchase and other costs incurred in bringing the inventories to their present location. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as expense during the period, write-downs and the amount of any reversal of write-downs recognized as a reduction in expenses.

The standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506, "Accounting Changes".

The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard. It is likely that the carrying amounts of inventories will increase as a result of adopting Section 3031 since amortization of property, plant and equipment is currently not included in production overheads allocated to inventory cost. In addition, the Company is reviewing the additional presentation and

disclosure requirements which will be required in the consolidated financial statements and the accompanying notes.

Outlook

Sales

The Company is anticipating continued volume growth in 2008 as it continues to execute its growth plans. Actual volumes attained in 2008 will be impacted by several factors including:

- (i) actual start date for #6 Blast Furnace;
- (ii) levels of inventories held by service centers throughout the year;
- (iii) general economic conditions in Canada and the U.S. and the impact on demand of steel intensive products and industries such as automotive, heavy machinery, housing and non-residential construction; and
- (iv) levels of imports from countries such as China, Brazil, India and Russia; and

Significant steel price increases have been announced in the first quarter of 2008 and early indications are that these increases are being attained which will result in significantly higher average pricing than was realized in the second half of 2007. The sustainability of these increases and the likelihood of further increases will be dictated by many of the industry and economic factors outlined above.

Manufacturing Costs

The 2008 price for iron ore will not be finalized until world benchmark prices are established and Algoma and our primary supplier complete the price reopener process as defined in our contract. The Company is currently paying 15% more than 2007 pricing for the ore contracted for 2008 until the unit price is finalized. The impact of this higher 2008 pricing will likely not take full effect until the end of the first quarter given inventory levels at the end of the year that are at 2007 price levels. The final 2008 price will be applied retroactively and will apply to all contracted tons from our major supplier for 2008. The Company will be purchasing approximately 30% more iron ore than in 2007.

The Company has concluded contractual arrangements respecting 100% of its coal requirements for 2008. Algoma estimates its 2008 contract coal costs per ton, which take effect on deliveries after April 1, 2008, will be approximately 11% higher than 2007 coal contract costs. The increase from 2007 is mitigated by the effect of lower cost coal at previous contract pricing to be consumed in the first half of 2007 (the FIFO inventory effect). Management cautions that actual coal costs are subject to many variables and could vary significantly from these estimates. These variables include the value of the Canadian dollar, shipment reliability against contracts, delivery costs, the mix of coal used, and coke-making production levels.

In 2007, approximately 66% of coal inventories were carried by Algoma's primary coal supplier until the point of consumption under a consignment arrangement. This arrangement will remain in place in 2008. The balance is purchased from other suppliers at the point of delivery of the coal to Algoma.

Rail and vessel freight costs are anticipated to increase marginally, influenced by base price increases and fuel prices.

Employment levels are not expected to change significantly from 2007 levels. Wage rates in 2008 are expected to increase approximately 3.5% in accordance with the increase negotiated in the new collective bargaining agreements that became effective August 1, 2007 and expire on July 31, 2010.

Financial Position and Liquidity

At December 31, 2007, the Company had \$116.3 million of unused availability under its revolving credit facility and unrestricted cash of \$15.9 million for total availability of \$132.2 million. This liquidity is expected to increase throughout 2008.

The prepayment of \$85.0 million of pension funding obligations in December 2006 eliminated regular pension funding in 2007 and is expected to eliminate funding until June of 2008.

Capital expenditures are projected to increase to approximately \$170.0 million in 2008 from \$131.3 million in the combined Predecessor and Successor periods of 2007. The increase is primarily due to the commissioning of #6 Blast Furnace and expenditures related to the cogeneration facility. Capital expenditures in 2008 are expected to be funded from cash flow generated in the year.

The Company holds a 10% revenue royalty on lands near Wawa, Ontario (the “Leadbetter Extension Property”) on which Dianor Resources Inc. is conducting a diamond exploration program. Dianor has reported the occurrence of diamonds in the surface sampling and drilling that it has conducted to date. Algoma also owns lands abutting the Leadbetter Extension Property. Dianor is a public company listed on the TSX Venture Exchange (DOR).

The Company anticipates that it will remain in compliance with its debt covenants and terms of its lending agreements throughout 2008. However, changes in external factors, outlined in the following section, can influence the Company’s results and may impact the Company’s ability to comply with the debt covenants.

This outlook contains forward-looking statements with respect to market conditions, prices, operating costs and shipments. Some factors, among others, that could affect market conditions, steel prices, costs and shipments include global and North American product demand, product mix, level of contract sales, foreign exchange rates, global production levels, plant operating performance, North American steel production levels and capacity utilization, natural gas prices and usage, raw materials availability and prices, changes in environmental, tax and other laws, and North American and global economic performance and political developments. Steel shipments and prices could be affected by import levels and government actions or lack of actions with regard to imports. These risks and uncertainties and others are described in more detail below.

Risks and Uncertainties

Overview

The primary goals of managing risks are: (i) to ensure that risks are properly identified and controlled, (ii) to ensure that mechanisms exist to identify risks, analyze and assess their impact on the Company and, (iii) to monitor changes in those risks and communicate the risks to all levels of management, the Board of Directors and shareholders.

Highly Competitive Nature of the Global Steel Industry

In recent years, there has been a substantial increase in global steel capacity, particularly in China which has become the largest steel producer and consumer in the world. In addition, there has been consolidation of global steel producers and the emergence of an industry leader with global capacity exceeding 120 million tons representing approximately 10% of the global steel market and several other producers each producing in excess of 30 million tons of steel. A significant slowdown in growth and/or increases in capacity, which exceed consumption rates in China, could result in surplus steel which may be exported to world markets. In addition, an economic downturn which affects demand for the Company’s products or an increase in the strength of the U.S. dollar or Canadian dollar relative to other currencies could increase imports. It is, therefore, possible that more unfairly priced imports could enter into the North American markets at a future date, resulting in further price erosion, which would adversely affect the Company’s ability to compete, its revenue and its profitability.

Algoma competes with numerous foreign and domestic steel producers. Some of its competitors have greater financial and capital resources than Algoma does and continue to invest heavily to achieve increased production efficiencies, increased capacity and improved product quality. Algoma primarily competes with other steel producers based on the delivered price of finished products to Algoma’s customers. Algoma’s labour, raw material and energy costs are higher than many foreign producers. Although freight costs for steel can often make it uneconomic for distant steel producers to compete with the Company, to the extent that they have lower cost of sales such as lower labour, raw material or energy costs or are government subsidized, they may be able to successfully compete. Although the Company is continually striving to improve its operating costs, it may not be successful in achieving labour, raw material and energy cost improvements or gaining operating efficiencies that may be necessary to remain competitive on a global scale.

The domestic steel industry has experienced lengthy periods of difficult markets due to increased foreign imports. Due to unfavourable foreign economic conditions, excess foreign capacity and a strong Canadian and U.S. dollar, imports of steel products to the U.S. and Canadian markets have reached high levels and, in some cases, have been sold at prices below their combined production and export costs.

Since the beginning of 1997, over 35 U.S. steel companies have sought protection under Chapter 11 of the *United State Bankruptcy Code*. Many of these companies continued to operate, while reducing prices to maintain volumes and cash flow and obtaining concessions from their labour unions and suppliers. Some companies have even expanded and modernized during these reorganizations. Upon emerging from reorganization, these companies, or new entities that purchased their facilities through this process, have been relieved of many obligations including environmental, employee and retiree benefits and other obligations, commonly referred to as legacy costs. As a result, they may be able to operate with lower costs than Algoma.

Low Priced Imports and Trade Regulation

The Company's business has historically been affected by both Canadian and United States trade legislation intended to limit "dumping", a practice employed by certain foreign competitors that have sold steel into the United States or Canadian markets at prices below their costs or below prices prevailing in their own domestic markets. Such practices may result in injury to companies producing goods in Canada or the U.S. in the form of suppressed prices, lost sales, lower profits and reductions in production, employment levels and the ability to raise capital. Although in a number of cases Canadian trade laws have been successfully employed in the past, they may be inadequate to prevent future unfair import pricing practices which individually or collectively could materially adversely affect the Company. If current and future trade cases do not provide relief from such trade practices, relevant Canadian trade laws are weakened, world demand for steel decreases, or the U.S. or Canadian dollars strengthen against foreign currencies, an increase in the market share of imports into Canada may occur, which could have a material adverse effect on the Company. Moreover, trade regulations in other countries, particularly the United States, could materially adversely affect Algoma to the extent that they reduce or eliminate Algoma's access to certain steel markets. There can be no assurances that the Company will be able to compete effectively in the future.

A change in the situation in China could have a significant impact on steel markets in the rest of the world. China is presently increasing steel producing capacity by millions of tons every year. They are also importing large volumes of raw materials and some finished steel. China's imports of raw materials are driving up prices in the rest of the world, particularly for iron ore, coal and scrap. Chinese demand for vessels to import raw materials and export finished products has also caused increasing ocean freight rates. The combination of these factors has provided support for steel prices. As the Chinese supply of steel is brought into balance with the demand, countries presently exporting to China will be searching for alternative markets. Since Canada and the U.S. are the largest "open market" in the world, imports from these other countries could impact the North American market resulting in a loss of sales volume, price and profitability for the Company.

Cyclicality of the North American Steel Industry

The North American steel industry is cyclical in nature and sensitive to general economic conditions. The financial condition and results of operation of companies in the steel industry are generally affected by macroeconomic fluctuations in the Canadian, U.S. and global economies. Due mainly to its product mix, Algoma has a higher exposure to spot markets than most of its North American competitors and is, therefore, subject to more volatility in its selling prices. In addition, steel prices are sensitive to trends in cyclical industries such as the North American automotive, construction, appliance, machinery and equipment, and transportation industries, which are significant markets for the Company's products. In addition, many of its customers are affected by North American and worldwide economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to the Company and reduced sales levels. Although the Company has fixed-price customer contracts which typically range between 35% and 50% of total shipments, the majority of the contracts do not exceed one year in duration and may be difficult to enforce if a customer does choose to breach the contract.

Supply and Cost of Raw Materials and Energy

Algoma's operations require substantial amounts of raw materials and energy including coal, iron ore, alloys, scrap, oxygen, natural gas, electricity and other inputs. The price and availability of such raw materials and inputs are

subject to market forces and, in some cases, government regulations and accordingly, are subject to change. The Company could be particularly adversely affected during a period of declining selling prices for steel without a corresponding decline in raw material costs. Algoma's results of operations could be adversely affected by supply interruptions or further increases in the cost of materials. Algoma's iron ore, coal, alloy and scrap costs would be adversely affected by a decrease in the relative value of the Canadian dollar. There can be no assurance that adequate supplies of oxygen, electricity, natural gas, coal, iron ore or alloys will be available in the future or that future increases in the cost of such materials will not adversely affect Algoma's operations.

Currency Fluctuations

The prices for steel products sold in Canada are derived mainly from price levels in the U.S. market in U.S. dollars converted into Canadian dollars at the prevailing exchange rates. As a result, a stronger Canadian dollar relative to the U.S. dollar reduces the Company's Canadian dollar selling prices for sales in both Canada and the U.S.

Increases in the value of the Canadian dollar relative to the U.S. dollar make Canadian steel products and Canadian customers less competitive in U.S. markets and also encourage imports from the U.S. Therefore, a significant increase in the value of the Canadian dollar could materially and adversely affect Algoma's results of operations and financial condition. Algoma considers its currency hedging strategy from time to time and utilized a \$50 million forward contract near the end of 2007 to hedge against an increase in the Canadian dollar. The Company has also entered into forward contracts early in 2008.

There is a high correlation between U.S. dollar exchange rates, as compared to global currencies, and the price of steel, especially commodity grades. Weakness in the U.S. dollar will generally provide support to increased steel prices. To the extent that the Canadian to U.S. dollar exchange rate moves consistently with U.S. dollar to global exchange rates, the impact of the U.S. dollar to Canadian dollar exchange rate may be offset by changes in steel prices.

Increases in the value of the Canadian dollar relative to the home currencies of global steel producers would also increase the probability of increased imports.

Under-funding of Pension Plans

The Company's pension plans had an aggregate funding deficiency of \$193.7 million as at the measurement date of November 30, 2007, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2007, on a solvency basis which currently represents the basis for annual pension funding, is estimated at \$189.3 million. Employer contributions in 2007 were \$0.6 million. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund \$21 million in 2008 after taking into account the pre-funding of contributions in December 2006. Expected benefit payments for 2008 are \$41.9 million. The unfunded liability could increase due to changes to the collective bargaining agreements, a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations.

Post-Employment Benefits

The Company provides certain post-employment benefits to its retirees. These benefits include drug, life insurance and hospitalization coverage. The Company does not pre-fund these obligations. At the measurement date, November 30, 2007, the unfunded actuarial liability for these obligations was \$399.2 million. The cash paid in 2007 to fund these benefits was \$14.2 million. Expected benefit payments for 2008 are \$17.7 million. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company.

Substantial Capital Investment, Capital Commitments and Maintenance Expenditures Required

The Company's operations are capital intensive. Algoma expects to be required to make ongoing capital expenditures in an effort to achieve and maintain competitive levels of capacity, cost, productivity and product quality. Total capital expenditures were \$42.4 million, \$56.5 million, \$67.4 million and \$131.3 million for the years ended December 31, 2004, 2005, 2006 and 2007 respectively. Capital expenditures at these levels may not be sustained indefinitely. Capital expenditures in 2008 are currently projected at approximately \$170.0 million and are primarily related to the commissioning and start up of #6 Blast Furnace and the completion of the construction of the cogeneration facility.

The Company may not generate sufficient future operating cash flow and external financing sources may not be available in an amount sufficient to enable it to make anticipated capital expenditures, service or refinance its indebtedness, or fund other liquidity needs.

Variability of Financial Results

Algoma's financial results may fluctuate substantially, not only due to the cyclicity of the steel industry and fluctuations in foreign exchange rates, but also due to other factors such as Algoma's higher exposure to spot markets than most of its North American competitors, specific product competition, operating performance, uncontrollable increases in prices of raw materials and energy, and difficulties or delays in capital projects. Algoma experienced a period of low selling prices for its steel products in the second half of 2007. Although selling prices have improved at the beginning of 2008 and there have been further announced increases, no assurance can be given that these improvements will be sustained in the future.

Adverse Impact of the Company's Level of Indebtedness

The Company has significant debt obligations. If the Company is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay expenditures, selling assets or seeking additional equity capital.

Algoma's high degree of leverage could have important consequences, including the following:

- it may limit Algoma's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes;
- a substantial portion of Algoma's cash flows from operations must be dedicated to the payment of interest on Algoma's indebtedness and is not available for other purposes, including its operations, capital expenditures and future business opportunities;
- borrowings under the term loan agreement are at variable rates of interest, exposing Algoma to the risk of increased interest rates;
- it may limit Algoma's ability to adjust to changing market conditions and place it at a competitive disadvantage compared to its competitors that have less debt; and
- the Company may be vulnerable in a downturn in general economic conditions or in its business, or it may be unable to carry out capital spending that is important to its growth.

Financial Restrictions

Algoma's senior secured credit facilities contain restrictive covenants that require Algoma to maintain a maximum leverage ratio and a minimum EBITDA to interest expense ratio. In addition, the facilities contain certain restrictive covenants which, among other things, limit the incurrence of additional indebtedness, limit investments,

capital expenditures and dividends and restrict transactions with affiliates, permitted acquisitions, asset sales, liens and encumbrances and other matters customarily restricted in such agreements. Algoma's ability to comply with these restrictions may be affected by events beyond its control. Algoma may not achieve operating results that will permit it to meet these restrictive covenants or may need to take business actions prohibited by these covenants. These covenants may also limit Algoma's ability to obtain additional or more favourable financing. In addition, substantially all of Algoma's receivables and inventories have been pledged to secure its Revolving Facility.

Labour Matters

Algoma has approximately 3,300 active employees, of which approximately 3,200, representing 96% of the Company's employees, are represented by two locals of the United Steelworkers of America under two collective bargaining agreements. The collective agreements expire July 31, 2010. Algoma may be unable to successfully negotiate new collective bargaining agreements without any labour disruption.

Algoma's customers, or companies upon which Algoma is dependent for raw materials, transportation or other services, could also be affected by labour difficulties. Any such activities, disruptions or difficulties could result in a significant loss of production and sales and have a material adverse effect on Algoma's financial condition or results of operations.

Environmental Matters

Algoma's operations are required to comply with an evolving body of environmental laws concerned with, among other things, emissions into the air, discharges to surface and ground water, the investigation and remediation of contaminated property, noise control, waste management and disposal, mine closure and rehabilitation, and the generation, handling, storage, transportation, presence and disposal of hazardous substances. These laws and regulations vary depending on the location of the facility and can fall within federal, provincial or municipal jurisdictions.

In the United States and Canada, certain environmental laws and regulations impose joint and several liabilities on certain classes of persons for the costs of investigation and remediation of contaminated properties. Liability may attach regardless of fault or the legality of the original management or disposal of the substance or waste. Some of the Company's present and former facilities have been in operation for many years and, over such time, have used substances and disposed of wastes that may require investigation and remediation. Algoma could be liable for the costs of such investigations and remediation. Costs for any remediation of contamination, on or off site, whether known or not yet discovered, or to address other issues relating to waste disposal, mine closure, emissions into the air or water, or the storage of materials, could be substantial and could have a material adverse effect on Algoma's results of operations.

Pursuant to an order by the Ontario Ministry of Labour, the Company is required to install, by 2008, certain equipment in the No. 7 Blast Furnace to reduce casthouse emissions. The cost of this equipment and its installation is currently estimated at \$20-\$25 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to apply technology or process changes to mitigate noise levels from identified sources within the Sault Ste. Marie operations. It is estimated that the capital cost associated with the noise abatement plan is in the order of \$10 million to be completed by 2013.

The Company is required to fund the capital and operating cost of a mine closure in Wawa involving capital costs of approximately \$2 million during the period of 2010 to 2020. Future operating costs for the mine closure program are estimated at \$50,000 - \$100,000 annually until 2020, and then \$200,000 to \$300,000 commencing in 2020 for the foreseeable future. Financial assurance in the order of \$7.4 million has been provided to the Province of Ontario in the form of a letter of credit.

Algoma's Environment, Health and Safety Department regularly reviews and audits the Company's operating practices to monitor compliance with Algoma's environmental policies and legal requirements.

No assurance can be given that unforeseen changes, such as new laws or stricter enforcement policies, or a crisis at one of Algoma's properties or operations, will not have a material adverse effect on the business, estimated capital or operating costs, financial condition, or results of operations of Algoma. Algoma's operations are required to

have governmental permits and approvals. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect the operations of Algoma and may subject Algoma to penalties. In addition, if environmental laws are amended or are interpreted or enforced differently, or if new environmental legislation is enacted, Algoma may be required to obtain additional operating permits or approvals and incur additional costs. There can be no assurance that Algoma will be able to meet all applicable regulatory requirements. In addition, Algoma may be subject to fines, penalties or other liabilities arising from its actions imposed under environmental laws, including as a result of actions or other proceedings commenced by third parties, such as neighbors or government regulators.

Technology and Competition

There is ongoing research and technological developments with respect to the various processes associated with steel production which have the potential to reduce costs and improve quality. It is possible that certain developments could substantially impair the Company's competitive position if other companies implement new technology and the Company does not or cannot.

Competition of Products with Other Materials

In the case of certain product applications, steel competes with a number of other materials such as plastic, aluminum, and composite materials. Improvements in the technology, production, pricing or acceptance of these competitive materials relative to steel or other changes in the industries for these competitive materials could cause net sales to decline.

Unexpected Equipment Failures

Algoma's manufacturing processes are dependent upon critical steelmaking equipment such as furnaces, continuous casters, rolling mills, and electrical equipment (such as transformers), and this equipment may incur downtime as a result of unanticipated failures. The Company has experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect productivity and results of operations for the affected period. No assurance can be given that a significant shutdown will not occur in the future or that such a shutdown will not have a material adverse effect on the business, financial condition or results of operations of the Company. In addition, an unexpected failure in the Company's computer system may have the same result.

Dependence on Senior Management

Algoma's operations and prospects depend, in large part, on the performance of Algoma's senior management team. The Company cannot assure that such individuals will remain as employees. In addition, Algoma can make no assurance that it would be able to find qualified replacements for any of these individuals if their services were no longer available. The loss of the services of one or more members of senior management or difficulty in attracting, retaining and maintaining additional senior management personnel could have a material adverse effect on Algoma's business, financial condition and results of operations.

Insurance

To date, Algoma has been able to obtain liability insurance for the operation of its business. However, there can be no assurance that Algoma's existing liability insurance will be adequate, or that it will be able to be maintained, or that all possible claims that may be asserted against Algoma will be covered by insurance.

Tax Loss Carry-forwards

The Company's income tax loss carry-forwards were reduced by approximately \$180 million under the financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of Federal and Ontario non-capital loss carry-forwards, but fully utilized these losses by the third quarter of 2005. Algoma's estimate of non-capital loss carry-forwards is currently under review by the Canada Revenue Agency and could be reduced, subjecting Algoma to a tax liability if the Company is unsuccessful in supporting its positions.

Effect of Potential Future Acquisitions

Algoma believes that there continues to be significant opportunity for future growth through selective acquisitions given the pace of consolidation in the steel industry and the increasing trend of its customers to focus on fewer key suppliers. As a result, Algoma intends to continue to apply a selective and disciplined acquisition strategy. Possible future acquisitions will likely involve a number of risks.

Future acquisitions may be required for the Company to remain competitive, but there can be no assurance it can complete any such transactions on favourable terms or that it can obtain financing, if necessary, for such transactions on favourable terms. In addition, there can be no assurance that future transactions will improve the Company's competitive position and business prospects as anticipated; if they do not, its results of operations may be adversely affected.

Supplementary Data

SELECTED QUARTERLY INFORMATION

As at and for the quarter ended	2007			2006				
	Successor Q4	Successor Q3	Combined Predecessor And Successor Q2 (ii)	Predecessor r Q1	Predecessor r Q4	Predecessor r Q3	Predecessor r Q2	Predecessor r Q1
OPERATING RESULTS								
(IN MILLIONS OF DOLLARS)								
Sales	\$ 514.8	\$ 368.5	\$ 482.3	\$ 479.5	\$ 418.4	\$ 516.9	\$ 504.8	\$ 499.6
Gross margin	61.6	(23.2)	68.2	71.3	82.0	129.6	144.0	98.0
EBITDA (i)	48.9	(37.2)	28.1	53.8	65.7	111.8	125.2	80.5
Income (loss) from operations	(3.0)	(92.8)	32.8	37.8	50.4	97.2	110.7	66.2
Income (loss) before income taxes	(19.2)	(62.8)	9.8	37.6	57.4	100.2	110.4	60.7
Net income (loss)	\$ 21.3	\$ (30.8)	\$ 3.9	\$ 23.1	\$ 50.4	\$ 59.5	\$ 79.2	\$ 32.7
OPERATING PERFORMANCE								
Gross margin %	12.0%	(6.3)%	14.1%	14.9%	19.6%	25.1%	28.5%	19.6%
EBITDA %	9.5%	(10.1)%	5.8%	11.2%	15.7%	21.6%	24.8%	16.1%
BALANCE SHEET INFORMATION								
(IN MILLIONS OF DOLLARS)								
Total assets	\$ 2,661.8	\$ 2,694.9	\$ 2,794.1	\$ 1,496.5	\$ 1,505.4	\$ 1,535.8	\$ 1,634.2	\$ 1,542.4
Cash and cash equivalents and short-term investments	23.9	12.1	13.2	154.2	175.1	209.3	341.4	302.1
Working capital	182.7	195.2	297.0	644.3	607.9	605.4	736.2	696.7
Property, plant and equipment	1,823.9	1,868.2	1,851.3	650.1	648.8	637.6	638.0	641.4
Long-term debt	740.5	868.7	927.6	-	-	-	-	-
Pension, post- employment benefit obligation and other long- term liabilities	865.4	872.7	879.4	397.7	395.9	413.0	405.4	410.8
Shareholders' equity	580.1	513.2	544.0	909.5	885.1	831.9	969.8	928.5

(i) EBITDA is a non-GAAP measure and is defined on page 4 of this report

(ii) See Use of Non GAAP Measures on page 4 of this report

Supplementary Data

SELECTED QUARTERLY SALES INFORMATION (in thousands of tons)

For the quarter ended	2007			2006				
	Successor Q4	Successor Q3	Combined Predecessor And Successor Q2	Predecessor Q1	Predecessor Q4	Predecessor Q3	Predecessor Q2	Predecessor Q1
Sheet	628	306	480	516	420	486	491	523
Plate	131	130	140	127	114	136	134	120
Total	759	436	620	643	534	622	625	643