ESSAR STEEL ALGOMA INC.

Formerly Algoma Steel Inc.
Amended and Restated Consolidated Financial Statements
For the period ended March 31, 2009

AUDITORS' REPORT

To the Shareholder of
ESSAR Steel Algoma Inc.

We have audited the consolidated balance sheet of **ESSAR Steel Algoma Inc.** as at March 31, 2009 and the consolidated statements of income (loss), comprehensive income (loss) and retained earnings (deficit) and cash flows for the year then ended. These amended and restated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these amended and restated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our previous audit report dated June 8, 2009 on the consolidated financial statements of the Company has been withdrawn as the consolidated financial statements have been amended and restated as described in note 30.

The financial statements as at March 31, 2008, and for the period January 1, 2008 to March 31, 2008, and for the period April 12, 2007 to December 31, 2007 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 12, 2008.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 8, 2009 (except as to note 30, which is as at November 30, 2009)

ESSAR Steel Algoma Inc.
Formerly Algoma Steel Inc.
Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit)
Expressed in millions of Canadian dollars

	Successor April 1, 2008 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007 (Unaudited)
Sales	**$ 2,547.5**	$ 502.3	$ 933.7	$ 431.9
Operating expenses				
Cost of sales excluding amortization	**2,197.0**	420.1	888.2	370.9
Amortization	**195.1**	43.9	71.8	-
	2,392.1	464.0	960.0	370.9
Administrative and selling	**58.6**	10.8	28.5	14.7
Amortization of intangibles and non-production assets	**26.7**	7.0	23.5	14.2
	2,477.4	481.8	1,012.0	399.8
Income (loss) from operations	**70.1**	20.5	(78.3)	32.1
Transaction-related expenses (note 27)	**-**	-	2.4	21.2
Financial expense (income)				
Interest on long-term liabilities	**74.4**	19.5	44.7	-
Change in the fair value of embedded derivatives (note 12)	**0.1**	-	4.9	-
Interest on short-term liabilities	**3.1**	2.4	8.2	0.9
Gain on note redemption	**(35.3)**	-	-	-
Foreign exchange loss (gain)	**(176.1)**	26.2	(76.2)	11.9
Currency contract gains (note 6)	**-**	-	(17.0)	-
Currency contract premiums (note 6)	**-**	-	9.8	-
Investment income	**(8.6)**	(0.3)	-	(1.6)
	(142.4)	47.8	(25.6)	11.2
Income (loss) before income taxes	**212.5**	(27.3)	(55.1)	(0.3)
Provision for (recovery of) income taxes (note 21)	**(4.8)**	(2.0)	(69.0)	8.0
Net income (loss) for the period	**217.3**	(25.3)	13.9	(8.3)
Unrealized gain on foreign exchange translation	**193.7**	-	-	-
Comprehensive income (loss) for the period	**$ 411.0**	$ (25.3)	$ 13.9	$ (8.3)
Retained earnings (deficit)				
Balance as previously reported	**$ (11.4)**	$ 2.7	$ -	$ 416.0
Change in accounting for inventory	**-**	11.2	-	-
Balance as restated	**(11.4)**	13.9	-	-
Net income (loss) for the period	**217.3**	(25.3)	13.9	(8.3)
Balance, end of period	**$ 205.9**	$ (11.4)	$ 13.9	$ 407.7

See accompanying notes to the consolidated financial statements

ESSAR Steel Algoma Inc.
Formerly Algoma Steel Inc.
Consolidated Balance Sheets
Expressed in millions of Canadian dollars

	Successor March 31, 2009	Successor March 31, 2008
Assets (note 11)		
Current		
Cash and cash equivalents	$ 60.9	$ 9.9
Restricted cash	2.2	8.0
Accounts receivable (note 24)	168.1	241.7
Loan receivable from related party (note 28)	17.6	-
Inventories (note 7)	269.5	345.5
Prepaid expenses (note 23)	50.1	4.7
Future income tax asset (note 21)	5.5	3.3
	573.9	613.1
Property, plant and equipment (note 8)	2,117.6	1,791.8
Assets held for sale (note 28)	218.6	101.1
Intangible assets, net (note 9)	133.6	120.3
Other assets	3.9	4.1
Total assets	$ 3,047.6	$ 2,630.4
Liabilities and shareholder's equity		
Current		
Bank indebtedness (note 11)	$ 78.5	$ 127.3
Accounts payable and accrued liabilities (note 10)	179.2	206.7
Accounts payable related to assets held for sale (note 28)	19.6	5.8
Income and other taxes payable	62.1	0.5
Accrued pension liability and post-employment benefit obligation (notes 13 and 14)	70.9	71.1
Payable to Essar Steel Holdings Limited (note 28)	5.0	8.2
Payable to related parties (note 28)	2.0	-
Current portion of long-term debt (note 12)	4.1	2.4
Future income tax liability (note 21)	3.2	6.7
	424.6	428.7
Long-term debt (note 12)	866.3	767.8
Deposit from related party (note 28)	-	37.1
Accrued pension liability (note 13)	81.7	89.9
Accrued post-employment benefit obligation (note 14)	396.5	383.6
Other long-term liabilities (note 26)	10.1	8.8
Future income tax liabilities on assets held for sale (notes 21 and 28)	-	4.2
Future income tax liabilities (note 21)	242.4	299.0
	1,597.0	1,590.4
Non-controlling interest (note 28)	80.4	45.3
Contingencies and commitments (note 23)		
Shareholder's equity		
Capital stock (notes 16 and 18)	490.4	531.8
Contributed surplus (note 20)	55.5	45.6
Accumulated other comprehensive income (note 15)	193.7	-
Retained earnings (deficit)	205.9	(11.4)
	945.5	566.0
Total liabilities and shareholder's equity	$ 3,047.6	$ 2,630.4

See accompanying notes to the consolidated financial statements

ESSAR Steel Algoma Inc.
Formerly Algoma Steel Inc.
Consolidated Statements of Cash Flows
Expressed in millions of Canadian dollars

	Successor April 1, 2008 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007 (Unaudited)
Operating activities				
Net income (loss) for the period	**$ 217.3**	$ (25.3)	$ 13.9	$ (8.3)
Adjustments and items not affecting cash:				
Amortization	**221.8**	50.9	95.3	14.2
Future income tax provision (recovery) (note 21)	**(66.5)**	(21.1)	(51.0)	(4.6)
Pension expense in excess of current funding (current funding in excess of expense)	**(9.4)**	13.4	20.2	9.9
Unrealized foreign exchange gain on pension expense	**(28.6)**	-	-	-
Post-employment benefit expense in excess of payments	**14.0**	4.1	6.9	4.0
Unrealized foreign exchange gain on post-employment expense	**(86.5)**	-	-	-
Foreign exchange loss (gain) on long-term debt and accrued interest	**-**	27.2	(75.3)	-
Change in the fair value of embedded derivatives (note 12)	**0.1**	-	4.9	-
Loss (gain) on disposal of property, plant and equipment	**1.5**	0.5	(0.1)	0.4
Stock-based compensation (note 18)	**-**	-	-	6.3
Unrealized foreign exchange gain on future income taxes	**(58.9)**	-	-	-
Gain on note redemption	**(35.3)**	-	-	-
Other	**4.4**	(2.8)	0.7	(0.3)
	173.9	46.9	15.5	21.6
Changes in non-cash operating working capital (note 25)	**268.6**	67.1	62.9	25.3
	442.5	114.0	78.4	46.9
Investing activities				
Acquisition of property, plant and equipment	**(207.4)**	(27.4)	(96.2)	(17.7)
Proceeds on sale of property, plant and equipment	**0.2**	-	1.6	0.2
Business acquisition, net of cash acquired of $41.2 million (note 6)	**-**	-	(1,797.2)	-
Acquisition of intangible asset	**(1.5)**	-	-	-
Restricted cash	**6.2**	-	(7.8)	-
Proceeds from sale of 49.9% interest in Algoma Energy LP (note 28)	**-**	-	82.8	-
Loan receivable from related party (note 28)	**(15.0)**	-	-	-
Deposit from related party (note 28)	**-**	-	44.1	-
Decrease in short-term investments	**-**	-	142.1	(140.3)
	(217.5)	(27.4)	(1,630.6)	(157.8)
Financing activities				
Bank indebtedness, net	**(91.1)**	(93.1)	220.5	-
Return of capital (note 16)	**(41.4)**	-	-	-
Proceeds of long-term notes and bank term loan, net (note 12)	**-**	-	939.1	-
Repayment of bank term loan (note 12)	**(2.8)**	-	(128.1)	-
Redemption of 9.875% notes payable (note 12)	**(42.2)**	-	-	-
Issuance of shares (note 16)	**-**	-	531.8	-
Advances from related parties, net (note 28)	**(5.1)**	0.2	8.4	-
Financing costs, bank indebtedness	**-**	-	(4.6)	(0.3)
Other	**2.8**	0.3	1.0	-
	(179.8)	(92.6)	1,568.1	(0.3)
Effect of exchange rate changes on cash and cash equivalents	**5.8**	-	-	-
Cash and cash equivalents				
Change during period	**51.0**	(6.0)	15.9	(111.2)
Balance, beginning of period	**9.9**	15.9	-	152.4
Balance, end of period	**$ 60.9**	$ 9.9	$ 15.9	$ 41.2
Supplemental cash flow information				
Income taxes paid (refunded)	$ (0.4)	$ (9.3)	$ 23.3	$ 25.8
Interest paid	$ 80.6	$ 9.2	$ 46.6	$ 0.3

See accompanying notes to the consolidated financial statements

1. BASIS OF PRESENTATION

On June 20, 2007, pursuant to a plan of arrangement (the “Transaction” or “Acquisition”), Algoma Steel Inc. (the “Predecessor”) was acquired by Algoma Acquisition Corp. (the “Successor”), which was an indirect wholly owned subsidiary of Essar Steel Holdings Limited (“Essar”), 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. The term “Predecessor” refers to Algoma Steel Inc. and its subsidiaries on a consolidated basis prior to the Acquisition, and the term “Company” refers to the Predecessor prior to the Acquisition and to the combined Predecessor and Successor companies after the Acquisition. The Company is a wholly owned subsidiary of Essar Group.

Effective March 31, 2008, the Company changed its fiscal year-end from December 31 to March 31. Effective June 23, 2008 Algoma Steel Inc. changed its name to ESSAR Steel Algoma Inc.

These consolidated financial statements include the results of operations and cash flows of the Successor for the period from April 1, 2008 to March 31, 2009, the results of operations and cash flows of the Successor for the period from April 12, 2007 to June 19, 2007 and the results of the acquired business for the period from June 20, 2007 to December 31, 2007 and January 1, 2008 to March 31, 2008. Other than activities in connection with the Acquisition, the Successor had no activities prior to the Acquisition. The unaudited consolidated financial statements of the Predecessor are provided for the period from April 1, 2007 to June 19, 2007.

The consolidated financial statements of the Predecessor for the comparative period of 2007 are not comparable in all respects to the consolidated financial statements of 2008 and 2009 as a result of the Transaction which resulted in a comprehensive revaluation of the Predecessor’s assets and liabilities at June 20, 2007, as a result of the application of business combinations accounting and the significant acquisition financing.

These financial statements have been prepared on the "going concern" basis which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company is dependent on its lenders for the financing of its operations through its banking facilities and long-term debt (notes 11 and 12). The Company is in compliance with the financial covenant requirements of the existing debt agreements at March 31, 2009; however based on the current market conditions the Company anticipates it will not be in compliance in the second and third quarter of fiscal 2010. If the Company does not comply with these financial covenants, the Company intends to approach lenders for waiver of the requirements or amendment of the covenant test limits. Should the lenders not waive such covenant breach or an agreement to amend the covenants not be reached, the Company would seek to renegotiate the terms of the agreement. However the lenders could demand payment. The Company may also consider refinancing with a new facility. The outcome of these matters cannot be predicted at this time.

2. NATURE OF OPERATIONS

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

3. CHANGES IN ACCOUNTING POLICIES

Credit risk and the fair value of financial assets and financial liabilities

Effective January 20, 2009, the Company adopted CICA Emerging Issues Committee ("EIC") Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, entitled "Financial Instruments – Recognition and Measurement". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments.

EIC 173 was to be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value. The implementation of this section had no material impact on the Company's consolidated financial statements.

4. CHANGE IN FUNCTIONAL CURRENCY

Effective April 1, 2008, the Company's functional currency changed to the United States dollar ("U.S. dollar") to reflect the increasing operational exposure to the U.S. dollar. The Company has continued to use the Canadian dollar as its reporting currency. In accordance with Canadian generally accepted accounting principles, all amounts presented for the period of April 1, 2008 to March 31, 2009 are translated to Canadian dollars using the current rate method whereby all revenues, expenses and cash flows are translated at the average rate that was in effect during the period and all assets and liabilities are translated at the prevailing closing rate in effect at the end of the period (Cdn. $1.2613 per U.S. $1.00 for March 31, 2009; Cdn. $1.0265 per U.S. $1.00 for March 31, 2008). Equity transactions have been translated at historical rates. The resulting net translation adjustment has been recorded in other comprehensive income or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries. The Company's interest in the equity of its subsidiaries is 100% except for Algoma Energy LP ("AELP"), where the Company's interest is 50.1% at March 31, 2009 (50.1% at March 31, 2008). Prior to December 28, 2007, the Company owned 100% of AELP. The outside equity holders' interests are shown as "Non-controlling Interest" (note 28).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on deposit and term deposits maturing within 90 days of acquisition and are valued at fair value.

Restricted cash represents cash held in an escrow account in order to secure and fund certain future obligations.

Revenue recognition

Revenue is recognized on the sale of manufactured products when risks of ownership and legal title pass to the customer, which generally occurs at the time of shipment. Revenues are recorded net of provisions for returns, customer claims and other adjustments. Amounts billed to customers in a sale transaction related to shipping and handling are recorded as revenue. The Company reflects freight costs associated with shipping its products to customers as a component of cost of sales.

Inventories

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, "Inventories". The standard provides guidance with respect to the determination of inventory 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. The new standard requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. 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.

Raw materials, work in process and finished products inventories are measured at the lower of average cost and net realizable value. Supplies inventories are measured at the lower of average cost and replacement cost. Average cost for finished goods and work in process is comprised of direct costs and an allocation of production overheads, including amortization expense.

Property, plant and equipment

Property, plant and equipment of the Successor is recorded at its estimated fair value on June 20, 2007 pursuant to the Transaction. Property, plant and equipment purchased after June 20, 2007 is recorded at cost. Interest incurred in connection with the construction of major new facilities is capitalized. The amortization of property, plant and equipment begins when assets are ready for their intended use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Amortization is calculated generally by the straight-line method based on estimated remaining useful lives as follows:

Buildings	5 to 40 years
Machinery and equipment	5 to 20 years
Computer hardware and software	5 years
Mill rolls	1 to 15 years

Capital costs related to extending the useful life of the blast furnace are amortized over its estimated life on a unit of production basis.

The Company incurs maintenance costs on all of its major equipment. Costs that extend the life of the asset or increase the utility of the asset are capitalized as property, plant and equipment and are depreciated over the estimated useful life. All other repair and maintenance costs are expensed as incurred.

Assets held for sale

Assets held for sale are carried at the lower of their carrying amount or fair value less cost to sell.

Intangible assets

As a result of the accounting for the Transaction, the Company allocated a portion of the purchase price to intangible assets that include customer relationships, technology, in-process research and development, supply agreements and order backlogs. Finite-life 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, less than one year
Essar Centre naming rights	Over term of specific agreement, 10 years

Finite-life 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 indefinite 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

The Company follows the liability method of income tax allocation. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided to the extent that it is not more likely than not that the future income tax assets will be realized. Investment tax credits related to research and development are recognized in income as a reduction of such expenses when the Company has made the qualifying expenditures and to the extent that there is reasonable assurance that the credits will be realized. Income tax benefits relating to uncertain tax positions are recognized when they are considered by management to be probable of realization and are measured at management's best estimate of the amount to be realized. Such tax benefits are derecognized and related tax liabilities recorded when management considers realization to no longer be more likely than not.

Translation of foreign currencies

Effective April 1, 2008, the Company's functional currency changed to the U.S. dollar to reflect the increasing operational exposure to the U.S. dollar. The Company has continued to use the Canadian dollar as its reporting currency (note 4).

Pensions and other post-employment benefits

The Company measures its accrued benefit obligation and the fair value of plan assets for accounting purposes at March 31 (the measurement date) each year. The accrued benefit obligations and the benefit costs are actuarially determined using the projected benefit method pro-rated on services. The past service costs resulting from negotiated benefit changes are amortized over the term of the collective bargaining agreement which is generally three years. Cumulative gains and losses (such as adjustments arising from experience gains and losses and changes in assumptions) in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of active members expected to receive the benefits under the plans and over the average remaining life expectancy of 15 years for plans where all, or almost all, of the employees are no longer active. The expected average remaining service period of active members of the pension plans at the measurement date of March 31, 2009 was 9 to 10 years.

The Company also provides for other post-employment benefits upon retirement for employees and their dependents. The cost of these benefits is accrued over the service lives of the employees based on actuarial estimates. The expected average remaining service period of active members related to the other post-employment benefits at the measurement date of March 31, 2009 was 10 to 12 years.

The pension and post-employment benefit plans of the Predecessor were assumed by the Successor with no changes to the plans as a result of the Transaction.

Environmental costs

For environmental liabilities that can be estimated, the Company accrues its best estimate of the costs to be incurred.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. 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 or loss 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 or loss. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost.

The Company has designated its cash and cash equivalents and short-term investments as held-for-trading. Derivatives are classified as held-for-trading as required by accounting standards and its accounts receivable as loans and receivables. Accounts payable and accrued liabilities were designated as other financial liabilities.

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.

To manage risks associated with future variability in cash flows attributable to certain commodity purchases, the Company uses natural gas swap contracts with maturities of twelve months or less. To manage its interest rate risks, the Company also utilizes interest rate swaps for portions of its outstanding long-term indebtedness. The Company does not utilize derivative financial instruments for trading or speculative purposes. All derivative instruments including embedded instruments are measured at fair value with changes in fair value recognized in income.

Financing costs

Financing costs associated with the Revolving Facility (note 11) are amortized using the effective interest rate method as a component of interest expense. Financing costs related to the bank term loan and the Senior Notes are recorded as a component of the carrying amount of the related debt and are amortized to income using the effective interest rate method.

Transaction costs

All transaction costs are recognized immediately in net income (note 27).

Stock-based compensation plans

The Predecessor had three stock-based compensation plans as described in note 18. The Predecessor accounted for its grants under those plans in accordance with the fair value based method of accounting for stock-based compensation. As a result of the Transaction, all stock-based compensation awards vested and were settled and the plans were cancelled.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of 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.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. In addition to items discussed elsewhere, significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment; measurement of inventories; the tax benefits related to scientific research and experimental development claims; valuation allowances for receivables and future income taxes; and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

Asset retirement obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

Research and development

Research costs are charged to operations as incurred, due to the nature of the projects. Where government incentives in the form of investment tax credits and grants are received for research and development projects initiated by the Company for its own purposes, these incentives are deducted from the applicable category of expenditures, that is, either cost of sales or property, plant and equipment.

Comprehensive income (loss)

Other comprehensive income (loss) includes unrealized gain on foreign exchange translation from the U.S. functional currency to the Canadian reporting currency. Other comprehensive income (loss) is presented below net income on the consolidated statements of income (loss), comprehensive income (loss) and retained earnings (deficit). Comprehensive income (loss) is composed of net income and other comprehensive income (loss).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accumulated other comprehensive income is a separate component of shareholder's equity which includes the accumulated balances of all components of other comprehensive income (loss) which are recognized in comprehensive income (loss) but excluded from net income (loss).

Impact of new accounting pronouncements on future reporting periods

In February 2008, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company does not expect that the adoption of this new standard will have a material impact on its consolidated financial statements.

In October 2008, the CICA issued Handbook Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests". CICA 1582 establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed, CICA 1601 carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests, and CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company in the first quarter of 2011 with earlier adoption permitted.

In February 2008, the Canadian Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company plans to report its consolidated financial statements in accordance with IFRS commencing January 1, 2011. The Company has evaluated the impact of these new standards.

6. ACQUISITION OF THE COMPANY

In the year 2007 - 2008, the Company accounted for the Transaction as a business combination using the purchase method. All consideration for shares and other equity instruments was paid in cash. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Expressed in millions of Canadian dollars, except as noted

6. ACQUISITION OF THE COMPANY *(continued)*

	Acquisition of Predecessor
Current assets, including acquired cash of $41.2	$ 895.6
Current future income taxes	3.5
Property, plant and equipment	1,847.6
Intangible assets:	
Customer asset	99.6
Technology	10.4
In-process research and development	4.5
Supply agreements	76.7
Order backlogs	7.2
	198.4
Total assets acquired	2,945.1
Current liabilities assumed	(206.2)
Pension and other post-employment benefits	(500.0)
Other long-term liabilities	(7.3)
Long-term future income taxes	(393.2)
Total liabilities assumed	(1,106.7)
Net assets acquired	$1,838.4

The total cost of the acquisition was $1,838.4 million, including amounts paid or payable to shareholders and holders of stock options and other equity-based awards of $1,827.0 million and acquisition costs of $11.4 million. At the closing of the Transaction, a shareholder of the Predecessor, holding approximately 2.3 million common shares, exercised their dissent rights in opposition to the Transaction. As a result, an amount due to this shareholder pursuant to the Transaction totalling approximately $130.8 million was not distributed at close. In July 2007, the shareholder withdrew their dissent and accordingly, the Company paid the amount outstanding related to the Transaction.

To fund the Transaction, the Successor entered into various debt facilities as described in notes 11 and 12. The total amount drawn on the long-term debt facilities at the close of the Transaction consisted of $482.75 million (U.S. $450 million) on the bank term loan facility and $482.75 million (U.S. $450 million) from Senior Notes, less total related financing costs of $26.4 million. Drawings on the Revolving Credit Agreement of $82.8 million less related financing costs of $4.7 million, cash from equity financing of $531.8 million and $142.1 million from short-term investments of the Predecessor were also used to fund the Transaction.

Prior to the Acquisition, 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 to December 31, 2007, based on Canadian functional activity, the Successor recorded a gain of $17.0 million on settlement and related premium expense of $9.8 million on these foreign exchange option and forward contracts.

Expressed in millions of Canadian dollars, except as noted

7. INVENTORIES

	Successor March 31, 2009	Successor March 31, 2008
Raw materials and supplies	**$ 192.5**	$ 151.3
Work in process	**33.9**	81.8
Finished products	**43.1**	112.4
	$ 269.5	$ 345.5

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007
				(Unaudited)
Inventory recognized as expense in period	**$ 2,059.1**	$ 388.9	$ 837.0	$ 347.6
Freight	**137.9**	31.2	51.2	23.3
Cost of sales	**$ 2,197.0**	$ 420.1	$ 888.2	$ 370.9

Inventory write-downs as at March 31, 2009 of $140.4 million (March 31, 2008 - nil) were recorded to adjust inventories to net realizable value and recognized as an expense in cost of sales in the period. There have been no reversals in the period of any previously recorded inventory write-downs.

8. PROPERTY, PLANT AND EQUIPMENT

	Successor March 31, 2009			Successor March 31, 2008		
	Cost	**Accumulated Amortization**	**Net book Value**	Cost	Accumulated Amortization	Net book Value
Land	**$ 24.0**	**$ -**	**$ 24.0**	$ 20.0	$ -	$ 20.0
Buildings	**238.4**	**46.0**	**192.4**	191.1	16.4	174.7
Machinery and equipment	**2,067.0**	**312.4**	**1,754.6**	1,605.8	112.4	1,493.4
Computer hardware and software	**57.7**	**18.3**	**39.4**	43.9	6.5	37.4
Mill rolls	**29.1**	**9.7**	**19.4**	24.3	5.8	18.5
Assets under capital lease	**6.4**	**2.0**	**4.4**	2.4	0.5	1.9
Construction in progress	**83.4**	**-**	**83.4**	45.9	-	45.9
	$2,506.0	**$ 388.4**	**2,117.6**	$1,933.4	$141.6	$1,791.8

Expressed in millions of Canadian dollars, except as noted

8. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Amortization of property, plant and equipment for the twelve months ended March 31, 2009 was $206.9 million (three months ended March 31, 2008 was $47.9 million and was $94.6 million for the period from April 12, 2007 to December 31, 2007. Amortization included in inventory at March 31, 2009 amounts to $12.7 million ($17.7 million - March 31, 2008).

9. INTANGIBLE ASSETS

	Successor March 31, 2009			Successor March 31, 2008		
	Cost	**Accumulated Amortization**	**Net book Value**	Cost	Accumulated Amortization	Net book Value
Customer relationships	**$ 122.4**	**$ 16.6**	**$ 105.8**	$ 99.6	$ 5.9	$ 93.7
Technology	**12.8**	**2.5**	**10.3**	10.4	0.9	9.5
In-process research and development	**5.5**	**1.3**	**4.2**	4.5	0.5	4.0
Supply agreements	**24.7**	**13.1**	**11.6**	20.1	7.0	13.1
Order backlogs	**8.8**	**8.8**	**-**	7.2	7.2	-
Essar Centre naming rights	**1.8**	**0.1**	**1.7**	-	-	-
	$176.0	**$ 42.4**	**$133.6**	$141.8	$ 21.5	$120.3

Amortization of intangible assets for the twelve months ended March 31, 2009 was $14.3 million (three months ended March 31, 2008 was $4.0 million and was $17.5 million for the period from April 12, 2007 to December 31, 2007 based on Canadian Functional activity).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Successor March 31 2009	Successor March 31 2008
Trade payables	**$ 54.8**	$ 86.3
Accrued liabilities	**73.5**	64.6
Wages and employee deductions payable	**17.8**	22.4
Accrued vacation pay	**33.1**	33.4
	$179.2	$ 206.7

11. BANKING FACILITIES

In order to facilitate the Transaction and refinance the Company, on June 20, 2007, the Successor entered into a five-year Revolving Credit Agreement ("Agreement"). The Agreement provides the Company with a revolving credit facility ("Revolving Facility") equal to the lesser of U.S. $425 million and a borrowing base determined by the levels of the Company's accounts receivable and inventories, less certain reserves. The Revolving Facility is secured by substantially all of the Company's assets. Under the General Security Agreement, the Revolving Facility has priority claim on the accounts receivable and inventory of the Company, while the bank term loan has priority claim on the rest of the Company's assets.

Borrowings can be made in either Canadian or United States funds. Canadian borrowings bear interest at either the Canadian bankers' acceptance rate plus a margin of 1.25% – 2.0% or Canadian prime rate plus a margin of 0.25% – 1.0%. United States borrowings bear interest at either London Inter-Bank Overnight Rate ("LIBOR") plus a margin of 1.25% – 2.0%, or the lender's corporate base rate plus a margin of 0.25% – 1.0%. The applicable margin is dependent on the average excess availability under the Revolving Facility for the preceding fiscal quarter.

The Revolving Facility also provides for payment to the lenders of an unused line fee on the average daily excess availability of 0.25% per annum and a letter of credit fee ranging from 1.25% to 2.00%, depending on the average excess availability under the Revolving Facility. A commitment fee of 0.25% of the full amount of the Revolving Facility and a funding fee of 0.75% of the full amount of the Revolving Facility fees totaling $4.7 million were incurred to establish the Revolving Facility and are being amortized to expense using the effective interest rate method.

At March 31, 2009, there was $78.5 million (includes U.S. borrowings of U.S. $62.2 million) (March 31, 2008 - $127.3 million (includes U.S. borrowings of U.S. $30.6 million)) outstanding under the Revolving Facility and $211.1 million (March 31, 2008 - $193.2 million) of unused availability after taking into account $19.9 million of outstanding letters of credit. In addition, the Company had $60.9 million of unrestricted cash at March 31, 2009 (March 31, 2008 - $9.9 million)

Under the terms of the Revolving Credit Agreement and the bank term loan facility, the Company is required to be in compliance with various restrictive covenants, including a maximum leverage ratio and a minimum interest coverage 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. The Company was in compliance with the financial covenant requirements of the Revolving Credit Agreement and bank term loan facility at March 31, 2009 (see note 1).

Expressed in millions of Canadian dollars, except as noted

12. LONG-TERM DEBT

	Successor March 31, 2009	Successor March 31, 2008
Bank term loan denominated in U.S. dollars, bearing interest at LIBOR plus 2.5% or the lender's corporate base rate plus 1.5%, due June 15, 2013	**$ 399.2**	$ 327.3
Senior Notes denominated in U.S. dollars, bearing interest at 9.875%, due June 15, 2015	**489.3**	466.5
	888.5	793.8
Less unamortized financing costs	**18.1**	23.6
	870.4	770.2
Less current portion	**4.1**	2.4
	$ 866.3	$ 767.8

The aggregate amount of principal repayments in each of the next five years and thereafter at current exchange rates is as follows:

2010	$ 4.1
2011	4.1
2012	4.1
2013	4.1
2014	382.8
Thereafter	489.3
	$ 888.5

On December 28, 2007 the Company made a payment on the term loan of U.S. $130.0 million. The term loan has a remaining principal amount of U.S. $316.5 million (CDN $399.2 million), is secured by substantially all of the Company's assets and is subject to various restrictive covenants, including a maximum leverage ratio and a minimum interest coverage ratio. It is repayable in quarterly payments of U.S. $0.8 million beginning September 30, 2008, with the balance of U.S. $303.6 million due at maturity.

Financing costs related to the bank term loan and the Senior Notes (the "Notes") totaled $26.4 million and are recorded as a component of the carrying amount of the related debt and are amortized to income using the effective interest rate method. The unamortized balance at March 31, 2009 was $18.1 million.

During the 2009 fiscal year, the Company purchased and cancelled U.S. $65.3 million of Senior Notes leaving a remaining balance of U.S. $384.7 million. The Notes are unsecured and are subordinated in right of payment to all existing and future secured indebtedness of the Company to the extent of the assets securing such indebtedness.

Expressed in millions of Canadian dollars, except as noted

12. LONG-TERM DEBT *(continued)*

Subject to certain conditions, at any time prior to June 15, 2010, the Company may redeem up to 35% of the principal amount of the Notes at a redemption price of 109.875% of the principal amount plus accrued and unpaid interest with the proceeds of a public equity offering. At any time prior to June 15, 2011, the Company may also redeem all or a part of the Notes at a redemption price equal to 100% of the principal amount of Notes redeemed plus accrued and unpaid interest and a specified premium. On or after June 15, 2011, the Company may redeem all or a part of the Notes at the following redemption prices, plus accrued and unpaid interest:

2011	104.938%
2012	102.469%
2013	100.000%

Under Canadian generally accepted accounting principles, the prepayment options in the Notes 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 were included in the carrying amount of the Notes and had an estimated fair value of $4.9 million on issuance of the Notes and have an estimated fair value of nil at March 31, 2009 (March 31, 2008 – nil).

13. PENSION BENEFITS

Defined contribution pension plan

The Company initiated a defined contribution plan in 2004 for non-unionized employees joining the Company after January 1, 2003. Under the plan, the Company provides a base contribution of 3% of salary and also matches employee contributions to a maximum of 4%, depending on years of service. The pension expense under this plan is equal to the Company's contribution. The 2009 pension expense was $0.2 million (2008 was less than $0.1 million).

Defined benefit pension plans

The Company maintains non-contributory defined benefit pension plans that cover substantially all employees (including pensioners retiring after January 1, 2002, which is the date that the Ontario Pension Benefit Guarantee Fund assumed some of the assets and obligations of the pension plans). The benefits are based on years of service and average earnings for a defined period prior to retirement.

The Company also maintains a closed plan for pensioners who retired prior to January 1, 2002. This plan provides the pensioners with a pension benefit in excess of the limits provided by the Ontario Pension Benefit Guarantee Fund.

Expressed in millions of Canadian dollars, except as noted

13. PENSION BENEFITS *(continued)*

Components of net periodic pension cost

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Current service cost	**$ 22.7**	$ 5.8	$ 12.7
Interest cost	**52.7**	12.7	26.4
Actual loss on plan assets	**103.2**	19.3	3.5
Actuarial gain on benefit obligation	**(180.1)**	(34.9)	(22.1)
Settlement loss	**0.1**	-	-
Plan amendments, past service	**-**	-	64.1
Costs arising in the period	**(1.4)**	2.9	84.6
Differences between costs arising in the period and costs recognized in the period in respect of:			
Return on plan assets	**(150.2)**	(31.2)	(29.5)
Actuarial gain	**180.1**	34.9	22.1
Plan amendments/prior service costs	**21.1**	6.9	(56.7)
Net periodic pension cost	**$ 49.6**	$ 13.5	$ 20.5

Changes in accrued benefit obligation

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Accrued benefit obligation at beginning of measurement period	**$ 865.6**	$ 890.4	$ 823.0
Current service cost	**22.7**	5.8	12.7
Interest cost	**52.7**	12.7	26.4
Actuarial gain	**(180.1)**	(34.9)	(22.1)
Benefits paid	**(36.0)**	(8.4)	(13.7)
Obligation being settled	**(3.0)**	-	-
Plan amendments	**-**	-	64.1
Accrued benefit obligation at end of measurement period	**$ 721.9**	$ 865.6	$ 890.4

Expressed in millions of Canadian dollars, except as noted

13. PENSION BENEFITS *(continued)*

During July 2007, the Company negotiated a new three-year collective bargaining agreement with its trade unions. Under the new agreement the Company agreed to pension plan amendments which resulted in an increase of $64.1 million in actuarially estimated pension obligations related to past service. These costs are being amortized over the three-year collective agreement term.

Change in defined benefit pension plan assets

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Market value at beginning of measurement period	**$ 669.1**	$ 696.7	$ 713.7
Actual return on plan assets	**(103.2)**	(19.3)	(3.5)
Employer contributions	**59.3**	0.1	0.2
Benefits paid	**(36.0)**	(8.4)	(13.7)
Settlement payments	**(3.0)**	-	-
Market value at end of measurement period	**$ 586.2**	$ 669.1	$ 696.7

The assets of the pension plans are held by an independent trustee. Based on their fair value at March 31, 2009, the plan assets were comprised of approximately 39% equity and 61% bonds.

Reconciliation of funded status

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Funded status (deficit) at measurement date	**$ (135.7)**	$ (196.5)	$ (193.7)
Unamortized actuarial loss (gain)	**(26.2)**	3.7	7.2
Unamortized past service costs	**28.5**	49.8	56.9
Accrued pension liability	**$ (133.4)**	$ (143.0)	$ (129.6)

Expressed in millions of Canadian dollars, except as noted

13. PENSION BENEFITS *(continued)*

Composition of accrued pension liability on consolidated balance sheets:

	Successor March 31 2009	Successor March 31 2008
Current portion	**$ (51.7)**	$ (53.1)
Accrued pension liability	**(81.7)**	(89.9)
	$ (133.4)	$ (143.0)

The significant weighted-average assumptions are as follows:

	Successor April 1 to March 31 2009	Successor January 1 to March 31 2008	Successor April 12 to December 31 2007
Accrued benefit obligation:			
Discount rate	**8.03%**	6.05%	5.72%
Rate of compensation increase	**2.65%**	4.00%	4.00%
Net periodic pension costs:			
Discount rate	**6.05%**	5.72%	5.63%
Expected long-term rate of return on plan assets	**6.87%**	6.90%	6.89%
Rate of compensation increase	**3.53%**	4.00%	4.00%

Cash flow information

Total pension funding for the twelve-month period ended March 31, 2009 was $59.3 million (three-month period ended March 31, 2008 - $0.1 million). Contributions in fiscal 2009 were based on actuarial valuations at August 1, 2007. Contributions for 2008 and 2007 were reduced by pre-funding of contributions of $85.0 million made in December 2006. Contributions to the pension plans for 2007 and 2008 were based on actuarial valuations at September 1, 2006.

The actuarially estimated future pension benefit payments to retirees for the next ten years based on the August 1, 2007 valuation are as follows:

2010	$ 48.9
2011	51.5
2012	53.6
2013	55.2
2014	57.4
2015 – 2019	317.5

Expressed in millions of Canadian dollars, except as noted

14. OTHER POST-EMPLOYMENT BENEFITS

The Company offers post-employment life insurance, health care and dental care to some of its retirees. These obligations are not pre-funded.

Components of net periodic post-employment benefit cost

	Successor April 1 to March 31, 2009	**Successor January 1 to March 31, 2008**	Successor April 12 to December 31, 2007
Current service cost	**$ 4.1**	$ 1.1	$ 2.2
Interest cost	**23.1**	5.7	11.9
Actuarial gain	**(81.2)**	(18.7)	(4.8)
Plan amendments	**-**	-	6.0
Costs arising in the period	**(54.0)**	(11.9)	15.3
Differences between costs arising in the period and costs recognized in the period in respect of:			
Actuarial gain	**81.2**	18.7	4.8
Plan amendments	**1.9**	0.7	(5.4)
Net periodic post-employment benefit cost	**$ 29.1**	$ 7.5	$ 14.7

Change in post-employment benefit obligation

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Benefit obligation at beginning of period	**$ 384.0**	$ 399.2	$ 390.6
Current service cost	**4.1**	1.1	2.2
Interest cost	**23.1**	5.7	11.9
Actuarial gain	**(81.2)**	(18.7)	(4.8)
Benefits paid	**(15.2)**	(3.3)	(6.7)
Plan amendments	**-**	-	6.0
Benefit obligation at end of period	**$ 314.8**	$ 384.0	$ 399.2

Expressed in millions of Canadian dollars, except as noted

14. OTHER POST-EMPLOYMENT BENEFITS *(continued)*

Reconciliation of funded status

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Funded status at measurement date	**$ (314.8)**	$ (384.0)	$ (399.2)
Unamortized actuarial gain	**(103.5)**	(22.3)	(4.8)
Unamortized past service costs	**2.7**	4.7	5.4
Benefits paid after measurement date	**-**	-	1.1
Accrued post-employment benefit obligation	**$ (415.6)**	$ (401.6)	$ (397.5)

Allocation of accrued post-employment benefit obligation on consolidated balance sheets:

	Successor March 31, 2009	Successor March 31, 2008
Current portion	**$ (19.2)**	$ (18.0)
Accrued post-employment benefit obligation	**(396.5)**	(383.6)
	$ (415.7)	$ (401.6)

Expressed in millions of Canadian dollars, except as noted

14. OTHER POST-EMPLOYMENT BENEFITS *(continued)*

The significant weighted-average assumptions are as follows:

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007
Accrued benefit obligation:			
Discount rate	**8.10%**	6.10%	5.75%
Rate of compensation increase	**3.00%**	4.00%	4.00%
Initial health care rate	**7.28%**	7.30%	7.48%
Ultimate health care rate	**4.50%**	5.00%	5.00%
Year ultimate rate reached	**2027**	2019	2019
Net periodic benefit costs:			
Discount rate	**6.10%**	5.75%	5.65%
Rate of compensation increase	**4.00%**	4.00%	4.00%
Initial health care rate	**7.34%**	7.48%	9.41%
Ultimate health care rate	**5.00%**	5.00%	4.50%
Year ultimate rate reached	**2019**	2019	2015

Increasing the health care trend by 1% would change the accrued benefit obligation at March 31, 2009 by approximately $41.1 million and the post-employment benefit cost for the period from April 1, 2008 to March 31, 2009 by approximately $4.5 million. Decreasing the trend by 1% would change the accrued benefit obligation at March 31, 2009 by approximately $34.4 million and the post-employment benefit cost for the period from April 1, 2008 to March 31, 2009 by approximately $3.6 million.

Cash flow information

Payments made for other post-employment benefits were $15.1 million for the twelve-month period ended March 31, 2009 ($3.3 million for the three-month period ended March 31, 2008), and are on a pay-as-you-go basis.

The actuarially estimated future benefit payments for the next ten years are as follows:

2010	$ 20.6
2011	21.5
2012	22.5
2013	23.5
2014	24.6
2015 – 2019	140.2

Expressed in millions of Canadian dollars, except as noted

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Successor March 31, 2009	Successor March 31, 2008
Balance, beginning of period	**$ -**	$ -
Other comprehensive income for the period:		
Unrealized gain on foreign exchange translation	**193.7**	-
Balance, end of period	**$ 193.7**	$ -

16. CAPITAL STOCK

Authorized – Unlimited common shares

The following table summarizes the share capital transactions of the Successor since incorporation on April 12, 2007:

	Common shares Issued and Outstanding	
	# shares	Stated capital
Common shares issued on incorporation	10,000	$ -
Common shares issued during the period from April 12 to March 31, 2008	500,000,000	$ 531.8
Balance at March 31, 2008	500,010,000	531.8
Return of capital	-	41.4
Balance at March 31, 2009	500,010,000	$ 490.4

17. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

(i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk;
(ii) to meet external capital requirements on debt and credit facilities;
(iii) to ensure adequate capital to support long-term growth strategy; and
(iv) to provide an adequate return to shareholders.

The Company continuously monitors and reviews the capital structure to ensure the objectives are met.

Management defines capital as the combination of its indebtedness and equity balances and manages the capital structure within the context of the business strategy, general economic conditions, market conditions in the steel industry and the risk characteristics of assets.

The Company must adhere to covenants in its banking facilities and long-term debt agreements. As at March 31, 2009 the Company was in compliance with these covenants (note 12).

Expressed in millions of Canadian dollars, except as noted

18. STOCK-BASED COMPENSATION PLANS

The Predecessor had three stock-based compensation plans consisting of a share award plan, a stock option plan and restricted share unit plan that were terminated as a result of the Transaction. The Successor does not have any stock based compensation plans.

19. PROFIT SHARING PLAN

The Company has a profit sharing plan for substantially all employees. The amount of profit sharing is based on a percentage of annual calendar income from operations adjusted for the effects of the purchase accounting adjustments required under generally accepted accounting principles as a result of the Acquisition, as defined in the Collective Bargaining Agreements as follows:

Adjusted Annual Income from Operations	Profit Sharing Percentage
$0 - $ 50 million	0%
$50 - $100 million	6%
$100 - $150 million	8%
Greater than $150 million	10%

20. CONTRIBUTED SURPLUS

	Successor March 31, 2009	Successor March 31, 2008
Balance, beginning of period	**$ 45.6**	$ 45.6
Adjustment to current taxes on the sale of 49.9% interest in AELP (note 28)	**9.9**	-
Balance, end of period	**$ 55.5**	$ 45.6

Expressed in millions of Canadian dollars, except as noted

21. INCOME TAXES

The provision for (recovery of) income taxes is summarized as follows:

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007 (Restated)	Predecessor April 1 to June 19, 2007 (Unaudited)
Current	**$ 61.7**	$ 19.1	$ (18.0)	$ 12.6
Future	**(66.5)**	(21.1)	(51.0)	(4.6)
	$ (4.8)	$ (2.0)	$ (69.0)	$ 8.0

The composition of the future income tax recovery is as follows:

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007 (Restated)	Predecessor April 1 to June 19, 2007 (Unaudited)
Initiating and reversing temporary differences:				
Accounting reserves and inventory book-tax basis differences	**$ (2.3)**	$ (2.6)	$ 5.9	$ 0.7
Pension and post-employment benefit expense	**3.9**	(5.4)	(9.2)	(4.9)
Tax depreciation less than book amortization	**(36.0)**	(9.9)	(25.7)	(1.9)
Unrealized foreign exchange gain (loss) on $U.S. debt	**(25.3)**	(3.9)	11.2	-
Assets held for sale	**(4.2)**	-	-	-
Cash payment on stock options and restricted share units	**-**	-	11.2	-
Purchase accounting inventory adjustment	**-**	-	(7.8)	-
Financing expenses	**0.8**	0.4	1.7	-
Other	**(3.4)**	0.3	(1.8)	-
Realization of fresh start income tax assets not previously recognized:				
Pension and post-employment benefit expense	**-**	-	-	1.5
Benefit of future tax rate reductions enacted during the period	**-**	-	(36.5)	-
	$ (66.5)	$ (21.1)	$ (51.0)	$ (4.6)

Expressed in millions of Canadian dollars, except as noted

21. INCOME TAXES *(continued)*

Effective income tax rate

The following table explains the variation between the Company's provision for income taxes and the statutory income tax rate:

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007 (Restated)	Predecessor April 1 to June 19, 2007 (Unaudited)
Income tax provision at the statutory manufacturing and processing rate of 31.3% (2008 - 34.1%)	**$ 66.5**	$ (9.3)	$ (18.8)	$ (0.1)
Add (deduct):				
Non-deductible (taxable) portion of unrealized exchange loss (gain) on $US debt	**(61.4)**	3.9	(11.2)	-
Change in tax rate for future income taxes	**(9.6)**	3.2	-	-
Impact of future Federal tax rate reductions	**-**	-	(36.5)	-
Other	**(0.3)**	0.2	(2.5)	4.5
Change in future tax asset valuation allowance:				
Impact of post-employment expenses	**-**	-	-	3.6
Provision for (recovery of) income taxes	**$ (4.8)**	$ (2.0)	$ (69.0)	$ 8.0

Components of future income tax assets and liabilities are summarized as follows:

	Successor March 31, 2009	Successor March 31, 2008
Future income tax assets – current Canadian taxes		
Accounting reserves not currently deductible for tax purposes	**$ 5.0**	$ 2.7
Other	**0.5**	0.6
Total current assets	**$ 5.5**	$ 3.3
Future income tax liabilities – current Canadian taxes		
Book value of inventory in excess of tax basis	**$ (3.2)**	$ (5.5)
Other	**-**	(1.2)
Total current liabilities	**$ (3.2)**	$ (6.7)

Expressed in millions of Canadian dollars, except as noted

21. INCOME TAXES *(continued)*

	Successor March 31, 2009	Successor March 31, 2008
Future income tax assets – non-current		
Canadian taxes		
Post-employment benefit obligation	**$ 111.8**	$ 108.0
Pension benefit obligation	**31.4**	39.1
Unrealized exchange loss on $US debt	**20.2**	-
Other	**9.2**	7.7
	172.6	154.8
Valuation allowances	**-**	-
Canadian non-current assets, net	**172.6**	154.8
United States taxes		
Tax loss carry-forwards	**21.6**	19.0
Valuation allowance	**(21.6)**	(19.0)
United States non-current assets, net	**-**	-
Total non-current assets, net	**172.6**	154.8
Future income tax liabilities – non-current		
Canadian taxes		
Book value of tangible and intangible assets in excess of tax bases	**(415.0)**	(448.7)
Unrealized exchange gain on $US debt	**-**	(5.1)
Total non-current liabilities	**(415.0)**	(453.8)
Net non-current liabilities	**$ (242.4)**	$ (299.0)

Future income tax assets are recognized to the extent that it is determined to be more likely than not that sufficient taxable income will be available within the carry-forward periods to allow the asset to be realized. The determination is made at the consolidated balance sheet dates by assessing all positive and negative evidence regarding the future sources of taxable income.

The Company's U.S. subsidiary, Cannelton Iron Ore Company ("Cannelton"), has not engaged in any business activity since the disposition of its joint venture interest (note 23) in 2002. Consequently, a full valuation allowance of $21.6 million (March 31, 2008 - $19.0 million) has been recorded against its future income tax assets.

21. INCOME TAXES *(continued)*

Loss carry-forwards

The Company's non-capital losses were reduced by approximately $179.4 million as a result of debts being discharged under the 2002 financial reorganization for less than their principal amount. The Company utilized the remainder of its non-capital losses in 2005. The foreign exchange effect of the settlement of the $U.S. First Mortgage Notes under the reorganization resulted in a capital loss of $42.1 million, of which the remaining $33.2 million was applied against capital gains realized in 2006.

The Company's 2002 and 2003 taxation years are presently under audit by the Canada Revenue Agency ("CRA"). The CRA has completed its review of the Company's assignment of $160 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 million be reduced to $83.2 million and is awaiting the Company's response to their proposal. The Company intends to strongly 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 consequently, no liability has been recorded in the consolidated financial statements.

Cannelton has non-capital losses, which are limited to use under IRC 382, of approximately U.S. $50.4 million, of which U.S. $12.1 million expire in 2009 and 2010, U.S. $1.9 million in 2021 and U.S. $36.4 million in 2022.

Scientific research and experimental development claims

For the calendar and tax years 2002 to 2007, the Company has filed, or intends to file, scientific research and experimental development claims with the CRA totalling $309.8 million. The 2002 claim is currently under audit by the CRA and prior to this the Company has no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or $62.0 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 CRA has given a preliminary assessment for 2002 that they may reject a significant portion of the amount claimed.

The Company has recognized the portion of the related tax benefit that management believes meets the threshold of "reasonable assurance" of realization. The total tax benefit recognized to date is $21.9 million. The determination of the amount of tax benefit to recognize requires judgement, and is subject to change based on the CRA's audit of the claims which would result in adjustments to income.

Expressed in millions of Canadian dollars, except as noted

22. FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. The Company may use derivative financial instruments to hedge certain of these risk exposures. The use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Fair value of financial instruments

The fair value of short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates carrying value due to the short-term nature of these instruments. The fair value of the Company's variable rate bank term loan was approximately $209.6 million at March 31, 2009 ($288.0 million at March 31, 2008). The fair value of the Senior Notes, including the embedded call options, was approximately $182.0 million at March 31, 2009 based on market pricing for the Notes on or about that date ($402.4 million at March 31, 2008).

			March 31, 2009		March 31, 2008	
Financial Instrument	**Designation**	**Measurement**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash and cash equivalents	Held-for-trading	Fair value	**$60.9**	**$60.9**	$9.9	9.9
Restricted cash	Held-for-trading	Fair value	**2.2**	**2.2**	8.0	8.0
Derivatives	Required to be Held-for-trading	Fair value	**(8.6)**	**(8.6)**	(1.6)	(1.6)
Accounts and loan receivables	Loans and receivables	Amortized cost	**185.7**	**185.7**	241.7	241.7
Bank indebtedness	Other financial liabilities	Amortized cost	**(78.5)**	**(78.5)**	(127.3)	(127.3)
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	**(205.8)**	**(205.8)**	(257.8)	(257.8)
Long-term debt	Other financial liabilities	Amortized cost	**(870.4)**	**(391.6)**	(770.2)	(690.4)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers. The Company has an established credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes a review of the potential customer's financial information, external credit ratings and bank and supplier references. Credit limits are established for each new customer and customers that fail to meet the Company's credit requirements may transact with the Company only on a prepayment basis.

22. FINANCIAL INSTRUMENTS *(continued)*

The maximum credit exposure at March 31, 2009 is the carrying amount of accounts receivable of $168.1 million (March 31, 2008 - $241.7 million). One customer represents approximately 10% of this amount (March 31, 2008 - 12%). The Company is exposed to credit risk in the event of nonpayment by customers principally within the steel service center, automotive, hollow structural product, steel fabrication and manufacturing industries. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base. As at March 31, 2009, $14.7 million, or 8.7% of accounts receivable, were more than 90 days overdue (March 31, 2008 - $4.5 million, or 1.8%).

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individual exposures and a provision for expected losses that have been incurred but not yet identified. The allowance for doubtful accounts at March 31, 2009 was $3.0 million (March 31, 2008 - $2.7 million).

The Company may be exposed to certain losses in the event of non-performance by counterparties to derivative financial instruments such as commodity price contracts and foreign exchange contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing the Revolving Facility to ensure that there is sufficient availability under the facility. The details of the Revolving Facility are described in note 11. The Company continuously monitors and reviews actual and forecasted cash flows to ensure adequate liquidity and anticipate liquidity requirements. The Company's objectives and processes for capital management, including the management of long-term debt, are described in note 17.

Expressed in millions of Canadian dollars, except as noted

22. FINANCIAL INSTRUMENTS *(continued)*

The following table shows the Company's contractually agreed (undiscounted) cash flows payable under financial liabilities and derivative assets and liabilities as at the consolidated balance sheet dates:

March 31, 2009

Undiscounted cash flows	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Senior Notes	489.3	(489.3)	-	-	-	(489.3)
Interest on Senior Notes	-	(297.5)	(47.9)	(47.9)	(143.8)	(57.9)
Bank term loan	399.2	(399.2)	(4.1)	(4.1)	(391.0)	-
Interest on bank term loan	-	(48.9)	(11.8)	(11.7)	(25.4)	-
Revolving Facility	78.5	(78.5)	(78.5)	-	-	-
Trade and other payables	179.2	(179.2)	(179.2)	-	-	-
Derivative financial assets and liabilities [1]						
Interest rate swap used for hedging	4.7	(4.7)	(2.6)	(2.1)	-	-
Gas purchase swap used for hedging	3.9	(3.9)	(3.9)	-	-	-
	1,154.8	(1,501.2)	(328.0)	(65.8)	(560.2)	(547.2)

[1] The derivative financial assets and liabilities cash outflows represent the net contractual obligation

Expressed in millions of Canadian dollars, except as noted

22. FINANCIAL INSTRUMENTS *(continued)*

March 31, 2008

Undiscounted cash flows	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Senior Notes	466.5	(466.5)	-	-	-	(466.5)
Interest on Senior Notes	-	(350.9)	(58.9)	(47.5)	(142.5)	(102.0)
Bank term loan	327.3	(327.3)	(2.4)	(3.3)	(9.9)	(311.7)
Interest on bank term loan	-	(119.2)	(24.8)	(22.7)	(66.9)	(4.8)
Revolving Facility	127.3	(127.3)	(127.3)	-	-	-
Trade and other payables	206.7	(206.7)	(206.7)	-	-	-
Derivative financial assets and liabilities (1)						
Interest rate swap used for hedging	1.6	(1.6)	(0.6)	(0.5)	(0.5)	-
	1,129.4	(1,599.5)	(420.7)	(74.0)	(219.8)	(885.0)

(1) The derivative financial assets and liabilities cash outflows represent the net contractual obligation

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company occasionally buys and sells derivatives in order to manage market risks. These activities are carried out under the oversight of the Board of Directors.

Currency risk

The Company is exposed to currency risk on purchases, labour costs and pension liabilities that are denominated in Canadian dollars. 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 U.S. dollar relative to the Canadian dollar increases the Company's Canadian dollar selling prices for sales in both Canada and the U.S. A portion of the Company's purchases are denominated in Canadian dollars. The Company also has Canadian dollar denominated pension liabilities as detailed in notes 13 and 14.

Expressed in millions of Canadian dollars, except as noted

22. FINANCIAL INSTRUMENTS *(continued)*

At March 31, 2009 and March 31, 2008, the Company's Canadian dollar denominated financial instruments were as follows:

	Successor March 31, 2009	Successor March 31, 2008
Cash and cash equivalents	**$ 61.6**	$ 12.7
Accounts receivable	**97.1**	122.6
Bank indebtedness	**-**	(95.9)
Accounts payable and accrued liabilities	**(167.4)**	(160.7)
Payable to related parties	**(2.0)**	-
Pension and post-employment benefit liabilities	**(549.2)**	(544.6)
Other long-term liabilities	**(10.1)**	(8.8)
Net Canadian $ liability	**$ (570.0)**	$ (674.7)

A $0.01 strengthening of the U.S. dollar relative to the Canadian dollar at March 31, 2009 would have increased net income by $13.4 million.

Interest rate risk

Interest rate risk is the risk that the value of our assets and liabilities will be affected by a change in interest rates. The Company's interest rate risk mainly arises from the interest rate impact on variable rate debt. The Company manages interest rate risk through the periodic use of interest rate swaps for some of its outstanding variable rate debt. At March 31, 2009, the Company had an interest rate swap contract of $100 million U.S. at a fixed interest rate of 3.23%. The fair value of this interest rate swap contract at March 31, 2009 was $4.7 million, which was included in accounts payable and accrued liabilities. At March 31, 2008, the Company had an interest rate swap contract of $100 million U.S. at a fixed interest rate of 3.23%. The fair value of this interest rate swap contract at March 31, 2008 was $1.6 million, which was included in accounts payable and accrued liabilities. For the twelve-month period ended March 31, 2009, a one percent increase (or decrease) in interest rates would have decreased (or increased) net income by approximately $4.1 million.

Commodity price risk

The Company is subject to price risk from fluctuations in the market prices of commodities, including natural gas, iron ore and coal. The Company enters into supply agreements for certain of these commodities as disclosed in note 23. To manage risks associated with future variability in cash flows attributable to certain commodity purchases, the Company uses natural gas swap contracts with maturities of twelve months or less. At March 31, 2009 the fair value of natural gas swap contracts was a liability of $3.9 million, which was included in accounts payable and accrued liabilities. At March 31, 2008, there were no natural gas swap contracts outstanding.

Expressed in millions of Canadian dollars, except as noted

23. CONTINGENCIES AND COMMITMENTS

Under operating leases for premises and equipment, the Company is obligated to make aggregate payments of $9.9 million, comprised of:

2010	$4.5
2011	2.0
2012	1.6
2013	1.2
2014 and thereafter	0.6
	$ 9.9

In January 2002, the Company's wholly owned U.S. subsidiary, Cannelton, completed an agreement with Cleveland-Cliffs Inc. ("Cliffs") to transfer Cannelton's 45% interest in the Tilden Mining Company L.C. ("Tilden") in exchange for the assumption by Cliffs of Cannelton's share of Tilden's liabilities and no cash consideration. As part of this arrangement, the Company entered into an exclusive 15-year supply agreement with Cliffs for a minimum annual supply of 2.5 million tons of iron ore at market prices.

The Company has 8 years remaining with this agreement and the purchase commitment for the year ended March 31, 2010 is approximately U.S. $243.0 million. Under the terms of the agreement, until December 31, 2007 the Company paid for its annual purchases evenly throughout the year which, at any given time, could result in prepayments. At March 31, 2009, $49.1 million (U.S. $39.7 million) is included in prepaid expenses in this respect (March 31, 2008 - $1.0 million (U.S. $1.0 million)). Effective January 1, 2008, the contract requires that the Company make bi-weekly payments based on iron ore deliveries in the previous week and an estimate of iron ore deliveries in the following week. Prices under the agreement are reset annually under a pricing formula that is based on certain related benchmark pricing factors and is subject to a price reopening process every three years that resets the price for the year in which the reopening process occurs. The calendar year 2009 price for iron ore will not be finalized until world benchmark prices are established and the Company and our primary supplier complete negotiations under the price reopener process as defined in our contract.

The Company has agreements to source coal requirements until March 31, 2009 at fixed prices. The purchase commitment remaining for 2009 under these agreements is approximately $21.9 million (U.S. $17.4 million).

The Company has 6-1/2 years remaining in a contract with a single supplier for the purchase of oxygen, argon and nitrogen. The annual purchases under this contract approximate $12.2 million.

The Company is committed to purchase approximately 3.2 million MMBtus of natural gas at indexed prices in 2010.

Contractual commitments at March 31, 2009 amounted to $31.8 million relating to authorized capital projects.

In addition, AELP contractual commitments at March 31, 2009, related to construction of an electricity co-generation facility, amount to $7.5 million for 2010.

The Company has committed to make environmental expenditures during the period 2010 to 2016 in the amount of $40.0 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors.

Expressed in millions of Canadian dollars, except as noted

23. CONTINGENCIES AND COMMITMENTS *(continued)*

From time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to have a material adverse effect on these consolidated financial statements. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits, may receive assessments and reassessments.

24. SEGMENTED INFORMATION

The Company is viewed as a single business segment involving basic steel production for purposes of internal performance measurement and resource allocation. The revenue by product group is as follows:

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007
				(Unaudited)
Sheet and strip	**$ 1,637.4**	$ 311.3	$ 543.3	$ 270.0
Plate	**724.9**	155.4	275.0	127.6
Slab	**18.3**	-	-	-
Freight	**133.7**	31.3	52.4	23.2
Non-steel sales	**33.2**	4.3	63.0	11.1
	$ 2,547.5	$ 502.3	$ 933.7	$ 431.9

Sales to customers in the United States were $1,078.9 million for the year ended March 31, 2009 (January 1 to March 31, 2008 - $232.7 million) and $379.5 million for the period from April 1 to December 31, 2007. Export sales to other countries for the year ended March 31, 2009 were $98.7 million (January 1 to March 31, 2008 - $13.4 million) and for the period from April 1 to December 31, 2007 were $36.4 million.

For the period ended March 31, 2009, no single customer represented greater than 10% of total sales. For the three-month period ended March 31, 2008, no single customer represented greater than 10% of total sales and for the period from April 1 to December 31, 2007, no single customer represented greater than 10% of total sales.

At March 31, 2009, one customer represented 10% of the accounts receivable balance and at March 31, 2008, one customer represented 12% of the accounts receivable balance.

Expressed in millions of Canadian dollars, except as noted

25. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Successor April 1 to March 31, 2009	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007
				(Unaudited)
Accounts receivable	**$ 158.6**	$ (4.9)	$ (8.3)	$ 41.9
Inventories	**177.6**	(9.7)	113.9	(45.5)
Prepaid expenses	**(43.0)**	12.5	33.3	(5.2)
Accounts payable and accrued liabilities	**(76.5)**	45.2	(45.1)	60.5
Income and other taxes payable / receivable	**51.9**	24.0	(30.9)	(26.4)
	$ 268.6	$ 67.1	$ 62.9	$ 25.3

26. OTHER LONG-TERM LIABILITIES

	Successor March 31, 2009	Successor March 31, 2008
Environmental remediation liabilities (a)	**$ 6.6**	$ 7.4
Long-term lease obligation	**3.5**	1.4
	$ 10.1	$ 8.8

(a) This liability represents the Company' obligations associated with the Predecessor's former iron ore mine in Wawa, Ontario and obligations associated with the retirement of the Chlorobiphenyl ("PCB") Transformers. At March 31, 2009, this liability has been determined based on the Company's best estimate of the costs to be incurred, discounted at credit-adjusted risk-free rates. It is expected that the costs related to the iron ore mine remediation will be incurred between 2010 and 2029. It is expected that the costs related to the PCB Transformers will be incurred between 2010 and 2014. Changes in future conditions could require a change in this liability.

27. TRANSACTION-RELATED EXPENSES

Transaction-related expenses were incurred as follows:

	Successor April 12 to December 31 2007	Predecessor April 1 to June 19 2007
		(Unaudited)
Professional and advisory fees of Predecessor	$ -	$ 9.1
Employment contract severance expense	-	6.7
Recognition of outstanding stock-based compensation expense	-	5.4
Bridge loan fees	2.4	-
	$ 2.4	$ 21.2

Expressed in millions of Canadian dollars, except as noted

27. TRANSACTION-RELATED EXPENSES *(continued)*

The Predecessor 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 Transaction-related expenses for the Predecessor period from April 1, 2007 to June 19, 2007. In addition, the Predecessor incurred $6.7 million in severance costs related to the termination of employment contracts that existed with the Predecessor.

Included in Transaction-related expenses for the Predecessor period from April 1, 2007 to June 19, 2007 was $5.4 million in costs related to settlement of stock-based compensation plans. As a result of the Transaction, the vesting of these stock-based instruments was accelerated, and previously unrecognized compensation expense related to these instruments was recorded at the closing of the Transaction.

28. RELATED PARTY TRANSACTIONS

The Company's major shareholder, Essar, and its commonly controlled 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 6. The cost of these contracts was paid by Essar, and the remaining liability to Essar was $5.0 million at March 31, 2009 (March 31, 2008 - $8.2 million). This liability is unsecured and non-interest bearing with no specific repayment terms.

During the period of July 1 to September 30, 2008 the Company loaned U.S.$13.5 million under common control. As at March 31, 2009, the balance is $17.6 million (March 31, 2008 - nil).

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. AELP is constructing an electricity co-generation facility for an estimated total capital cost of $140 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):

Proceeds of the sale	$ 82.8
Net assets of AELP at the date of the transaction:	
Other receivables	0.4
Construction in progress, including capitalized interest of $0.7	32.4
Intangible asset – customer contract	56.6
Accounts payable and accrued liabilities	(8.5)
Future tax	(4.2)
	$ 76.7
Portion sold	49.9%
Non-controlling interest	$ 38.3
Excess of proceeds over carrying amount	$ 44.5
Current and future tax effects of the transaction	1.1
Amount recorded in contributed surplus	$ 45.6

28. RELATED PARTY TRANSACTIONS *(continued)*

The related party transaction has been accounted for at the carrying amount and the excess of the $82.8 million consideration paid over the 49.9% share of net assets of AELP has been recorded as contributed surplus. The income tax effects arising from the transaction have also been recorded as a capital transaction consisting of $9.9 million of current taxes, 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.

The assets and liabilities of AELP are shown as held for sale in the consolidated balance sheet and the 49.9% interest is shown as non-controlling interest of $80.4 million (March 31, 2008 - $45.3 million). The amount of the non-controlling interest's share of capital expenditures that are being funded by Essar is recorded as receivable from non-controlling interest which is netted from the deposit.

The Company has advanced funds to AELP and the portion related to the non-controlling interest in the amount of $42.1 million is shown as receivable from non-controlling interest which is netted from the deposit with a balance of $2.0 million at March 31, 2009.

29. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation adopted in the current year consolidated financial statements.

Expressed in millions of Canadian dollars, except as noted

30. AMENDED AND RESTATED SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

Subsequent to the issuance of the consolidated financial statements for the year ended March 31, 2009, the Company identified a number of typographical errors in the table set out below calculating "Comprehensive income in accordance with United States GAAP" ("U.S. GAAP"). The table began with "Net income (loss) in accordance with Canadian GAAP" instead of "Comprehensive income (loss) in accordance with Canadian GAAP". The amount picked up as "Net income (loss) in accordance with Canadian GAAP" was also incorrectly transcribed. Both of these errors resulted in an incorrect "Comprehensive loss in accordance with U.S. GAAP" of $119.1 million. The table below has been restated to report "Comprehensive income (loss) in accordance with Canadian GAAP" of $411.0 million and "Comprehensive income (loss) in accordance with U.S. GAAP" has been increased by $628.3 million resulting in comprehensive income of $509.2 million under US GAAP.

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP which differs in certain respects from U.S. GAAP. Following is a summary of the effect of significant differences in GAAP on the Company's consolidated financial statements.

	Successor April 1 to March 31, 2009 Restated	Successor January 1 to March 31, 2008	Successor April 12 to December 31, 2007	Predecessor April 1 to June 19, 2007 (Unaudited)
Comprehensive income (loss) in accordance with Canadian GAAP	**$ 411.0**	$ (25.3)	$ 13.9	$ (8.3)
FAS 158 adjustment	**98.2**	25.9	(47.4)	-
Comprehensive income (loss) in accordance with U.S. GAAP	**$ 509.2**	$ 0.6	$ (33.5)	$ (8.3)

Expressed in millions of Canadian dollars, except as noted

30. AMENDED AND RESTATED SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) *(continued)*

As a result of the reconciliation between Canadian and U.S. GAAP and additional disclosure requirements under U.S. GAAP, the changes to the consolidated balance sheets are as follows:

	Successor March 31, 2009	Successor March 31, 2008
Accrued pension liability, long-term portion		
Balance under Canadian GAAP	**$ 81.7**	$ 89.9
FAS 158 adjustment	**2.2**	53.5
Balance under U.S. GAAP	**$ 83.9**	$ 143.4
Accrued post-employment benefit obligation, long-term portion		
Balance under Canadian GAAP	**$ 396.5**	$ 383.6
FAS 158 adjustment	**(100.9)**	(17.6)
Balance under U.S. GAAP	**$ 295.6**	$ 366.0

	Successor March 31, 2009	Successor March 31, 2008
Future income tax liabilities, long-term		
Balance under Canadian GAAP	**$ 242.4**	$ 299.0
Tax effect of FAS 158 adjustment	**36.4**	(9.6)
Balance under U.S. GAAP	**$ 278.8**	$ 289.4
Accumulated other comprehensive (income)/loss		
Balance under Canadian GAAP	**$ (193.7)**	$ -
Prior period FAS 158 accumulated other comprehensive loss	**22.9**	47.4
FAS 158 adjustment, net of tax of $36.4	**(98.2)**	(24.5)
Balance under U.S. GAAP	**$ (269.0)**	$ 22.9

30. AMENDED AND RESTATED SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) *(continued)*

a) Pension and other post-employment benefit plans:

Effective December 15, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit and Other Postretirement Plans" ("FAS 158"). Under FAS 158, the Company is required to recognize the funded status of the defined benefit pension plans and other post-employment plans on the balance sheet with changes recorded in other comprehensive income.

The following additional disclosure is required under U.S. GAAP:

- The Accumulated Benefit Obligation at March 31, 2009 was $704.9 million (March 31, 2008 – $830.1 million).

- The expected return on assets represents management's best estimate of the long-term rate of return on plan assets applied to the fair value of the plan assets. The Company establishes its estimate of the expected rate of return on plan assets based on the fund's target asset allocation and estimated rate of return for each asset class.

- The Company's investment strategy provides that 50-60% of assets are to be invested in long-term bonds and 40-50% are to be invested in equities, of which 15-25% are to be invested in Canadian equities and 20-30% in global equities.

- The discount rate is selected based on the yield of AA corporate bonds that are similar in duration to the plan liabilities.

b) Consolidated statements of cash flows:

Canadian GAAP permits the presentation of a subtotal of the amount of funds provided by operating activities before changes in non-cash operating working capital in the consolidated statements of cash flows. U.S. GAAP does not permit this subtotal to be reported on the statement of cash flows.

c) Collective bargaining agreements:

Approximately 97% of the Company's employees are covered by collective bargaining agreements. The August 1, 2007 collective bargaining agreements expire on July 31, 2010.

d) FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes":

Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") provides guidance for the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 also prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

30. AMENDED AND RESTATED SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) *(continued)*

Upon adopting the provisions of FIN 48 on January 1, 2007 the total amount of unrecognized tax benefits was $11.1 million. As of the date of adoption, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $8.1 million. At March 31, 2009 the amount of unrecognized tax benefits and the amount that would affect the effective tax rate if recognized had increased to $40.1 million (March 31, 2008 - $40.1 million) due to additional investment tax credits ("ITCs") on qualified scientific research and experimental development ("SR&ED") expenditures.

For the years 2002 to 2007 the Company has filed, or intends to file, SR&ED claims totaling $309.8 million which have potential tax benefits of $62.0 million. The Company has only reflected a benefit of $21.9 million in its consolidated financial statements resulting in an unrecognized tax benefit of $40.1 million. The claim made for 2002 is presently under review by the Canadian tax authorities and the final outcome of the CRA audit process is uncertain at this time. It is reasonably possible that the final assessments for 2002 and from audits of subsequent years will differ significantly from the Company's tax position taken with respect to ITCs in respect of qualified SR&ED expenditures.

The Company's non-capital losses were reduced by approximately $179.4 million as a result of debts being discharged under the 2002 financial reorganization for less than their principal amount. The Company utilized the remainder of its non-capital losses in 2005.

The Company's 2002 and 2003 taxation years are presently under audit by the CRA. The CRA is reviewing the Company's assignment of CDN $160 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the financial reorganization. The Company is defending 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 in 2002 would be reduced by the amount of any downward adjustment to the valuation. Each $10 million reduction in the valuation of the common shares would result in an income tax reassessment and cash taxes payable of approximately $3.4 million plus any applicable interest. The Company believes its valuation is supportable and consequently, no liability has been recorded in the consolidated financial statements.

The Company's accounting policy under FIN 48 is to recognize interest and penalties accrued related to uncertain tax positions as a component of the income tax provision. No liability has been recorded for tax penalties as at March 31, 2009.

The Company is subject to taxation by Canada and the provinces of Ontario and Alberta. Tax returns for the year 2002 and forward are open for examination by tax authorities.

30. AMENDED AND RESTATED SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) *(continued)*

Recent United States accounting pronouncements:

SFAS 157 – "Fair Value Measurement"

Effective January 1, 2008, the Company adopted SFAS 157. This statement was issued to increase the consistency and comparability of fair value measurements and eliminate different definitions of fair value under various U.S. standards. It establishes a fair value hierarchy, with the highest priority being quoted prices in active markets. Under this statement, fair value measurements are disclosed by level within the hierarchy. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which defers the effective date of SFAS 157 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Company has adopted the provisions of SFAS 157 prospectively, except with respect to certain non-financial assets and liabilities which have been deferred. The adoption of SFAS 157 does not require any new fair value measurements. The adoption of this standard for financial assets and financial liabilities did not have an effect on the Company's consolidated financial statements.

SFAS 159 – "The Fair Value Option for Financial Assets and Liabilities"

Effective January 1, 2008, the Company adopted SFAS 159. This standard provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in income. Upon adoption of this standard, the cumulative effect of changes in the recorded values of financial assets and liabilities would be recorded as an adjustment to opening retained earnings. The Company did not elect to report eligible assets and liabilities at fair value, so the adoption of this standard had no effect on the consolidated financial statements.

SFAS 141R – "Business Combinations"

In December 2007, the FASB issued SFAS 141R which requires recognition of the assets acquired, liabilities assumed and non-controlling interest arising in a business combination at their fair value as of the acquisition date. In addition, most of the acquisition-related costs must be recognized as expenses as incurred. SFAS 141R is effective for acquisitions closing on or after the first reporting period following December 15, 2008, with earlier adoption prohibited. The Company is currently evaluating the impact of SFAS 141R, but does not expect this standard to have a significant impact on its consolidated financial statements on the date of adoption.

SFAS 160 – "Noncontrolling Interests in Consolidated Financial Statements"

In December 2007, the FASB issued SFAS 160 to establish accounting and reporting standards for the non-controlling interest in a subsidiary (formerly termed minority interest) and for the deconsolidation of a subsidiary. SFAS 160 requires non-controlling interests to be treated as a separate component of equity. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and the non-controlling interest. The provisions of SFAS 160 are effective for fiscal years beginning after December 15, 2008 and are to be applied prospectively at the beginning of the year, except that the presentation and disclosure requirements are to be applied retrospectively for all periods presented. The Company has not finalized its review of the impact of adopting SFAS 160, however, it will be applicable for accounting for the non-controlling interest in AELP.