



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") provides management's perspective on the financial condition and results of operations of Essar Steel Algoma Inc. (the "Company") and its subsidiaries and covers the three and six month periods ended September 30, 2011. The Company's year-end is March 31, 2011.

The Company's functional currency is the United States dollar ("US dollar" and "US \$") and its presentation currency is the Canadian dollar. Unless otherwise stated, the figures included in this MD&A are stated in Canadian dollars.

The Company adopted International Financial Reporting Standards (IFRS) effective April 1, 2011. Prior to adoption of IFRS, the Company's financial statements were prepared under Canadian Generally Accepted Accounting Principles ("previous CGAAP"). Adoption of IFRS requires that the Company restate the April 1, 2010 opening balance sheet and prepare comparative 2011 IFRS financial statements to be presented with its 2012 results. The information disclosed for the three months ended September 30, 2010 and as at March 31, 2011 have been restated for IFRS adjustments and reclassifications in Note 18 to the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2011. IFRS is considered equivalent to Canadian generally accepted accounting principles for Canadian reporting issuers for reporting periods commencing on or after January 1, 2011.

This MD&A provides information to assist readers of, and should be read in conjunction with, the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2011, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended March 31, 2011, including the notes thereto, and in consideration of the IFRS transition disclosures and additional annual disclosures included in Note 27 and Note 28 respectively of the Company's condensed interim consolidated financial statements for the three month period ended June 30, 2011. In the opinion of management, the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2011 contain all adjustments necessary for fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year.

This discussion of the Company's business may include forward-looking information with respect to the Company, including its operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as "may", "will", "expect" or similar variations generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties and should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved. Readers are cautioned not to place undue reliance on such information. Some factors, among others, that could affect market conditions, steel prices, costs and shipments include: global and North American product demand; product mix; level of contract sales; foreign exchange rates; global production levels; plant operating performance; North American steel production levels and capacity utilization; natural gas prices and usage; raw materials availability and prices; changes in environmental, tax and other laws; North American and global economic performance and political developments; and import levels and government actions or lack of actions with regard to imports.

This MD&A is dated as of November 9, 2011. This document has been reviewed by the Audit Committee and Board of Directors of the Company and contains information that is current as of November 9, 2011. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The condensed interim consolidated financial statements for the period ended September 30, 2011 are available on the Company's website: www.essarsteelalgoma.com.

Use of Non-IFRS Financial Measures

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

Use of Non-IFRS Financial Measures *(continued)*

EBITDA, as defined by the Company, refers to earnings before interest, taxes, amortization, foreign exchange, interest income, exceptional items and non-controlling interest. EBITDA is not a recognized measure for financial statement presentation under IFRS. EBITDA is not intended to represent cash flow from operations, as defined by IFRS, and should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by IFRS. The Company's EBITDA may also not be comparable to EBITDA used by other companies which may be calculated differently. The Company considers EBITDA to be a meaningful measure to assess its operating performance in addition to IFRS measures. It is included because the Company believes it can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business. EBITDA is also used by analysts and the Company's lenders as a measure of the Company's financial performance.

EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as an alternative to, net income, cash flow from operations or other data prepared in accordance with IFRS. Some of these limitations are:

- it does not reflect cash outlays for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, working capital;
- it does not reflect the finance costs, or the cash requirements necessary to service interest or principal payments on indebtedness;
- it does not reflect income tax expense or the cash necessary to pay income taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect cash requirements for such replacements;
- it does not reflect the impact of earnings or charges resulting from matters the Company considers not to be indicative of our ongoing operations; and
- other companies, including other companies in our industry, may calculate this measure differently than as presented in this document, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and the related ratios should not be considered as measures of discretionary cash available to invest in business growth or to reduce indebtedness. The Company compensates for these limitations by relying primarily on our IFRS results using EBITDA only as a supplement.

Functional Currency

The Company's functional currency is the US dollar which reflects the Company's operational exposure to the US dollar. The Company uses the Canadian dollar as its presentation currency. In accordance with IFRS, all amounts presented 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 or presented at their Canadian dollar transactional amounts and all assets and liabilities are translated at the prevailing closing rate in effect at the end of the period. Equity transactions have been translated at historical rates. The resulting net translation adjustment has been recorded in other comprehensive income. The currency exchange rates for the relevant three month periods of fiscal 2012 and fiscal 2011 are provided below:

	Average Rate		Period End Rate	
	2012	2011	2012	2011
April 1 – June 30	0.9677	1.0276	0.9645	1.0646
July 1 – September 30	0.9802	1.0391	1.0482	1.0290

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Overview of the Business

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

The Company's profitability is correlated to the pricing of steel, ore, coal and energy. Changes in the underlying pricing of the Company's steel products and its raw materials cause variation in operating results between periods. Steel pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America.

Overall Results

The results for the three month period ended September 30, 2011 reflect the impact of higher selling prices, higher shipment volumes and lower costs as compared to the three month period ended September 30, 2010. Selling prices over this period have increased by approximately 12.0%. Shipment volumes for the three months ended September 30, 2011 have increased 9.0% as compared to shipment volumes in the same period ended September 30, 2010 and costs have decreased 3.1%.

EBITDA for the three month period ended September 30, 2011 was \$86.9 million with average net sales realization of \$768 per ton and costs of steel products sold of \$616 per ton. Higher pricing overall as well as stronger pricing on plate products relative to sheet products are the largest contributing factors to the increase in net sales realization in the three month period ended September 30, 2011 compared to the same period of the previous year. There are a few key items affecting cost that offset one another to some degree but overall the reduction in cost is largely attributable to a reduction in spending resultant from cost reduction initiatives and increased production, reducing the cost on a per ton basis.

Income (Loss) from Operations

Income from operations for the three month period ended September 30, 2011 was \$61.3 million as compared to a loss from operations of \$32.6 million for the three month period ended September 30, 2010. Income from operations for the six month period ended September 30, 2011 was \$122.1 million as compared to a loss from operations of \$10.4 million for the six month period ended September 30, 2010.

Steel Revenue and Cost of Sales

	July 1 to September 30			April 1 to September 30		
	change	FY 2012	FY 2011	change	FY 2012	FY 2011
Steel Shipments (tons)	↑ 9.0%	673,640	617,911	↑ 6.8%	1,314,657	1,230,825
Steel Revenue (millions of dollars)	↑ 22.2%	\$ 555.3	\$ 454.4	↑ 20.3%	\$ 1,106.7	\$ 919.8
Cost of steel products sold (excluding amortization) (millions of dollars)	↑ 4.7%	\$ 434.3	\$ 414.8	↑ 8.8%	\$ 860.4	\$ 791.0
Average net sales realization on steel sales (excluding freight) (dollars per ton)	↑ 12.0%	\$ 768	\$ 686	↑ 13.2%	\$ 787	\$ 695
Cost per ton of steel products sold (excluding amortization, freight and exceptional items) (dollars per ton)	↓ 3.1%	\$ 616	\$ 636	↑ 1.4%	\$ 614	\$ 605

Average net sales realization (NSR) on steel sales (excluding freight) per ton shipped have increased 12.0% in the three months ended September 30, 2011 compared to the same period of last year. For the six months ended September 30, 2011 NSR has increased 13.2% compared to last year. This performance is partly reflective of higher steel selling prices worldwide.

Steel Revenue and Cost of Sales *(continued)*

The Company sells both sheet and plate products with plate normally sold at a higher price. In the three months ended September 30, 2011, the gap between sheet pricing and plate pricing is significantly larger than in the same period of last year. Although product mix of plate and sheet was not significantly different during the three months ended September 30, 2011 compared to the same period of last year, this increase in the plate pricing relative to sheet pricing has had a positive impact on NSR.

The decrease in the cost of steel products sold on a per ton basis in the three months ended September 30, 2011 compared to the same period of last year is impacted by a few key items. Most notably, pension and post-employment benefit expense is significantly lower in the three months ended September 30, 2011 versus the three months ended September 30, 2010. In August of 2010 the collective bargaining agreements with both local union groups were settled. The settlement resulted in a past service cost adjustment of \$48.3 million. \$43.5 million of this adjustment was recorded in cost of steel sales and \$4.8 million was recorded in administrative and selling expense during the three months ended September 30, 2010.

Costs have also been positively impacted by a reduction in spending resultant from cost reduction initiatives and increased production, reducing the cost on a per ton basis. Production increased by 10.1% in the three month period ended September 30, 2011 as compared to the three month period ended September 30, 2010.

This significant decrease in cost is partly offset by the increase in cost of basic raw materials, most significantly ore pellets and coal. During the three month period ended September 30, 2010, the ore pellet pricing under the Cleveland Cliffs iron ore purchase agreement was not finalized. The final decision was reached in the three month period ended December 31, 2010; consequently, the impact of the increase in pricing was not taken into account during the three month period ended September 30, 2010. Cost was also impacted by the weakening of the US dollar relative to the Canadian dollar by approximately 6% compared to 2011, thus certain costs denominated in Canadian dollars increased accordingly.

Profit sharing expense has been calculated in accordance with the profit sharing agreement and the appropriate accrual has been made for the period ended September 30, 2011. For the three and six month periods ended September 30, 2010 there was no profit sharing expense.

Non-steel Revenue and Cost of Sales

Non-steel sales were \$8.7 million for the three month period ended September 30, 2011 as compared to \$15.5 million for the three month period ended September 30, 2010. Non-steel sales were \$23.3 million for the six month period ended September 30, 2011 as compared to \$25.8 million for the six month period ended September 30, 2010. Non-steel sales include sales of various by-products generated in the manufacturing process. Non-steel cost of sales approximate non-steel sales amounts for the three and six month periods ended September 30, 2011 and September 30, 2010.

Administrative and Selling Expenses

Administrative and selling expenses for the three months ended September 30, 2011 were \$18.6 million as compared to \$25.8 million for the three months ended September 30, 2010. Administrative and selling expenses for the six months ended September 30, 2011 were \$40.5 million as compared to \$44.9 million for the six months ended September 30, 2010. The significant decrease in administrative and selling expenses during the three and six month periods ended September 30, 2011 as compared to the comparative periods ended September 30, 2010 is the result of lower pension and post-employment benefit costs. In August 2010, the Company reached settlement of the collective bargaining agreements with both local union groups. The settlement resulted in a past service cost adjustment of \$48.3 million, \$4.8 million of which was recognized in administrative and selling expenses.

Finance Costs, Finance Income and Foreign Exchange Gain

Finance costs for the three month period ended September 30, 2011 were \$21.0 million and \$21.1 million for the same period ended September 30, 2010. For the six month period ended September 30, 2011 finance costs were \$42.0 million and \$42.4 million for the same period ended September 30, 2010. The finance costs represent interest cost on the Senior Secured Notes and Senior Notes bearing fixed interest charge and the interest cost on the Company's Revolving Credit Facility. There has been no significant change in the balance of the debt between the three and six month periods ended September 30, 2011 and the same periods ended September 30, 2010.

Finance Costs, Finance Income and Foreign Exchange Gain *(continued)*

Finance income for the three month period ended September 30, 2011 was \$1.0 million (three month period ended September 30, 2010 – nil). For the six-month period ended September 30, 2011, finance income was \$1.1 million (six month period ended September 30, 2010 - nil).

The foreign exchange gain for the three month period ended September 30, 2011 was \$69.6 million as compared to a foreign exchange loss of \$31.5 million for the three month period ended September 30, 2010. The foreign exchange gain for the six month period ended September 30, 2011 was \$71.8 million as compared to a foreign exchange gain of \$9.2 million for the six month period ended September 30, 2010. These foreign exchange gains and losses reflect the effect of US dollar exchange rate fluctuations on the Company's Canadian dollar denominated monetary assets and liabilities.

Pension and Post-Employment Benefits

(in millions of dollars)	July 1, 2011 to September 30, 2011	July 1, 2010 to September 30, 2010	April 1, 2011 to September 30, 2011	April 1, 2010 to September 30, 2010
Pension expense	\$ 10.0	\$ 53.4	\$ 21.1	\$ 62.4
Post-employment benefit expense	7.4	11.1	14.8	17.5
Total	\$ 17.4	\$ 64.5	\$ 35.9	\$ 79.9

Pension and post-employment benefit expense is significantly lower in the three and six month periods ended September 30, 2011 versus the comparative periods ended September 30, 2010. In August of 2010 the collective bargaining agreements with both local union groups were settled. The settlement resulted in a past service cost adjustment of \$48.3 million. Under previous CGAAP, this past service cost adjustment was amortized over the life of the bargaining agreements that brought about the adjustment. Under IFRS, the Company is required to take the entire amount of the past service cost adjustment into income in the period in which the bargaining agreements were settled.

Income Taxes

Effective income tax rate: The following table explains the variation between the income tax expense and the statutory income tax rate:

	July 1, 2011 to September 30, 2011	July 1, 2010 to September 30, 2010	April 1, 2011 to September 30, 2011	April 1, 2010 to September 30, 2010
Income tax expense calculated using the statutory manufacturing and processing rate of 26.1% (2010 - 28.4%)	29.0	(24.2)	40.0	(12.4)
Add (deduct):				
Non-deductible (taxable) foreign exchange on US dollar currency	7.6	(4.2)	5.6	3.9
Other	0.6	1.3	0.5	1.9
	37.2	(27.1)	46.1	(6.6)

The Company has non-capital losses available of \$116.2 million which expire in 2031.

For the fiscal years 2002-2010, the Company has filed scientific research and experimental development (“SR&ED”) claims with the CRA totaling \$375.8 million. The potential tax benefit on these claims is 20% to 24% of the claims or \$76.4 million. To date, \$31.9 million of the potential tax benefit, the portion that management believes meets the threshold of “reasonable assurance” of realization, has been recognized. The determination of the amount of tax benefit to recognize requires judgment, and is subject to change based on the CRA's audit of the claims which may result in adjustments to income. The CRA has assessed \$3.4 million of tax credits in respect of 2002 to which the Company has objected. In August and September 2010, the Company reached agreements with the CRA on \$19.6 million of tax credits for the years 2003-2006.

Net Income (Loss)

Net income for the three month period ended September 30, 2011 was \$73.7 million as compared to a net loss of \$58.1 million for the same period ended September 30, 2010. Net income for the six month period ended September 30, 2011 was \$106.9 million as compared to a net loss of \$37.0 million for the same period ended September 30, 2010. The increase in net income is the result of the increase in income from operations and the increase in foreign exchange gains, both of which are discussed above.

EBITDA (i)

The following table shows the reconciliation of EBITDA to net income:

(in millions of dollars)	July 1, 2011 to September 30, 2011	July 1, 2010 to September 30, 2010	April 1, 2011 to September 30, 2011	April 1, 2010 to September 30, 2010
Net income (ii)	\$ 73.7	\$ (58.1)	\$ 106.9	\$ (37.0)
Depreciation on property, plant and equipment and Amortization of intangible assets and depreciation on non-producing property, plant and equipment	44.2	51.9	92.3	105.3
Finance costs	21.0	21.1	42.0	42.4
Income taxes	37.2	(27.1)	46.1	(6.6)
Foreign exchange gain	(69.6)	31.5	(71.8)	(9.2)
Finance income	(1.0)	-	(1.1)	-
Exceptional items	(18.6)	(8.9)	(18.6)	(18.5)
EBITDA	\$ 86.9	\$ 10.4	\$ 195.8	\$ 76.4

(i) EBITDA is a non-IFRS measure and is defined on page 2 of this report.

(ii) Prior to April 1, 2011 the Company's financial statements were prepared in accordance with previous CGAAP. Beginning during the three month period ended June 30, 2011; the Company adopted IFRS with a Transition Date of April 1, 2010 and restated the 2011 financial results to be in accordance with IFRS. Further details regarding the transition to IFRS are included in Note 27 of the condensed interim consolidated financial statements for the three months ended June 30, 2011 and Note 18 of the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2011.

EBITDA for the three month period ended September 30, 2011 was \$86.9 million, compared to \$10.4 million for the same period in the previous year. In the six-month period ended September 30, 2011, was \$195.8 million (2011 – \$76.4 million). The increase of \$76.5 million in EBITDA for the three months ended September 30, 2011 versus the three months ended September 30, 2010 was mainly due to increased selling prices, increased volume and reduction in cost. The reduction in cost is largely due to pension and post employment benefit expenses relating to past service cost resulting from the collective bargaining agreements settled in the three month period ended September 30, 2010 that were one-time in nature and not repeated in the three month period ended September 30, 2011. These savings were partly offset by the increase in cost of basic raw material, most notably ore pellets and coal. The increase of \$119.4 million in the six month period ended September 30, 2011 is driven by increased selling prices and increased volume compared to the same period of the prior year.

EBITDA for the three month and the six month periods ended September 30, 2010 have not been adjusted for the retrospective increase in the price of ore pellets as a result of the arbitration decision reached in the three month period ended December 31, 2010. The amount related to the three month period ended September 30, 2010 was approximately \$57.8 million and in the six-month period ended September 30, 2010 was approximately \$98.9 million.

Exceptional items for the three month period ended September 30, 2011 of \$(18.6) million represent the settlement resulting from the agreement reached with the Company's insurers on September 30, 2011 in connection with the losses that resulted from the chilling of Blast Furnace #7.

Exceptional items for the three month period ended September 30, 2010 of \$(8.9) million and for the six-month period ended September 30 2010 of \$(18.5) million represent payments received in regards to the insurance claim for the #7 Blast Furnace related to the failure of the bustle main in September 2009.

Financial Resources and Liquidity

Summary of Cash Flows

(in millions of dollars)	July 1, 2011 to September 30, 2011	July 1, 2010 to September 30, 2010	April 1, 2011 to September 30, 2011	April 1, 2010 to September 30, 2010
Operating activities:				
Cash flow (use) from operations before changes in working capital, interest and income taxes	108.3	62.5	\$ 225.6	\$ 140.2
Changes in non-cash operating working capital	(60.0)	(41.0)	(119.6)	(41.0)
Cash generated from operating activities	\$ 48.3	\$ 21.5	\$ 106.0	\$ 99.2
Interest paid	(19.8)	(20.2)	(39.6)	(41.5)
Income taxes (paid) recovered	-	10.7	1.2	10.3
	\$ 28.5	\$ 12.0	\$ 67.6	\$ 68.0
Investing activities:				
Acquisition of property, plant and equipment	\$ (22.8)	\$ (13.0)	\$ (34.9)	\$ (27.0)
Acquisition of intangible asset	(1.3)	(0.5)	(2.3)	(1.1)
Loan receivable from related party	(0.1)	(0.1)	(0.2)	(11.2)
Cash used in investing activities	\$ (24.2)	\$ (13.6)	\$ (37.4)	\$ (39.3)
Financing activities:				
Bank indebtedness, net	\$ (6.9)	\$ (27.8)	\$ (22.3)	\$ (54.0)
Other	(0.5)	0.4	(0.6)	-
Cash used in financing activities	\$ (7.4)	\$ (27.4)	\$ (22.9)	\$ (54.0)
Effect of exchange rate changes on cash	1.1	(1.4)	0.9	1.1
Change in cash and cash equivalents during the period	\$ (2.0)	\$ (30.4)	\$ 8.2	\$ (24.2)

Cash Flow from Operating Activities

The increase in cash flow from operating activities before changes in non-cash working capital for the three month period ended September 30, 2011 was primarily due to higher selling prices increased shipments and reduction in costs as compared to the same period ended September 30, 2010.

The changes in non-cash working capital were comprised of the following:

	July 1, 2011 to September 30, 2011	July 1, 2010 to September 30, 2010	April 1, 2011 to September 30, 2011	April 1, 2010 to September 30, 2010
Accounts receivable	\$ (3.0)	\$ (32.8)	\$(67.9)	\$ (5.7)
Loan receivable from related party	0.2	(0.1)	3.2	(0.4)
Inventories	(50.5)	(40.4)	(59.1)	(31.4)
Prepaid expenses	(3.1)	(4.6)	(5.3)	(2.6)
Accounts payable and accrued liabilities	(1.7)	32.9	13.8	(5.1)
Income and other taxes receivable / payable	(1.9)	4.0	(4.3)	4.2
Total	(60.0)	\$ (41.0)	\$ (119.6)	\$ (41.0)

Financial Resources and Liquidity *(continued)*

The increase of \$50.5 million during the three months ending September 30, 2011 and \$59.1 million during the six months ending September 30, 2011 in inventories was due to the replenishment of stocks as levels were low entering the period due to the chilling of Blast Furnace #7 as well as seasonal building of stocks in preparation for winter. The increase of \$67.9 million in accounts receivable during the six months ending September 30, 2011 was largely due to the effect that the chilling of Blast Furnace #7 had on sales volumes during the fourth quarter of 2011. The accounts receivable balance grew as sales recovered and the normal relationship between cash collections and shipment invoicing was reestablished. The increase of \$13.8 million in the accounts payable and accrued liabilities for the six months ending September 30, 2011 was a result of both increased production and seasonal fluctuations.

As previously discussed, the Company's functional currency is the US dollar which reflects the Company's operational exposure to the US dollar. The Company uses the Canadian dollar as its presentation currency. Changes in foreign exchange rates during the year impact the determination of cash flow amounts.

Cash Flow from Investing Activities

Capital expenditures for the three month period ended September 30, 2011 totaled \$22.8 million and included \$5.4 million on coke battery through wall repairs and \$5.0 million on the #9 battery collector main replacement. Capital expenditures for the comparative period, the three month period ended September 30, 2010 totaled \$13.0 million and included \$4.0 million on the blast furnace gas pipe line replacement and \$1.6 million on #2 ladle metallurgy facility.

Cash Flow from Financing Activities

Financing activities for the three month period ended September 30, 2011 included a decrease in bank indebtedness of \$6.9 million as compared to a decrease in bank indebtedness of \$27.8 million for the comparative period ended September 30, 2010. Financing activities for the six month period ended September 30, 2011 included a decrease in bank indebtedness of \$22.3 million as compared to a decrease in bank indebtedness of \$54.0 million for the comparative period ended September 30, 2010.

Capital Resources - Financial Position and Liquidity

At September 30, 2011, the Company had \$136.1 million of unused availability under its Revolving Facility after taking into account \$18.7 million of outstanding letters of credit and the facility's minimum excess availability requirement. In addition, the Company had \$13.6 million of unrestricted cash at September 30, 2011.

Borrowings under the Revolving Credit Facility are generally based on eligible accounts receivable and eligible inventories. In order to make borrowings under the Revolving Credit Facility, the Company must satisfy certain borrowing base requirements, and either meet a fixed charge coverage ratio test or maintain minimum excess availability of 10% of the Revolving Credit Facility commitments of US \$350 million. Presently, in order to make borrowings under the Revolving Credit Facility, the Company will be required to maintain minimum excess availability equal to US \$35.0 million.

The Company is also required to be in compliance with various 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 Facility at September 30, 2011.

For the next twelve months, the Company's expected principal liquidity needs will be to finance working capital, fund capital expenditures, reduce our financial leverage and for other general corporate purposes. Based on the Company's current operations, it is expected that cash on hand, together with cash flows from operations and borrowings under its Revolving Credit Facility will be adequate to meet working capital, capital expenditure, debt service and other cash requirements for the next twelve months.

In each of the next three years, the Company anticipates making approximately \$45-\$50 million of capital expenditures relating to maintenance projects. The Company may make additional capital expenditures relating to growth projects provided market conditions are favorable.

Valuations to update funding requirements for the defined benefit pension plans were completed effective August 1, 2010. Based on these reports, the required pension funding for fiscal 2012 is approximately \$69.4 million.

Contractual Obligations and Off Balance Sheet Arrangements

The following table presents, at September 30, 2011, our obligations and commitments to make future payments under contracts and contingent commitments. The following figures assume that the September 30, 2011 Canadian/US dollar exchange rate remains constant.

(millions of dollars)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Bank indebtedness (1)	\$ 175.4	\$ 175.4	\$ -	\$ -	\$ -
Long-term debt	806.2	-	-	806.2	-
Operating leases	7.3	4.5	2.3	0.4	0.1
Purchase obligations	7,230.8	788.7	948.9	725.6	4,767.6
Other obligations	16.2	1.6	3.3	1.3	10.0
Total	\$ 8,235.9	\$ 970.2	\$ 954.5	\$ 1,533.5	\$ 4,777.7

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

Off balance sheet arrangements include letters of credit and operating lease obligations as disclosed above and in the banking facilities note to the condensed interim consolidated financial statements (note 8).

Related Party Transactions

The Company's major shareholder, ESSAR Steel Holdings Ltd., and its commonly controlled affiliates are related parties. Related party transactions are measured at the exchange amount which is the amount of consideration agreed to between the parties, as disclosed in the related party transactions (note 16) to the condensed interim consolidated financial statements.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the condensed interim consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Financial instruments are disclosed in notes 3 and 26 to the condensed interim consolidated financial statements for the three months ended June 30, 2011 as well as the condensed interim consolidated financial statements and note 17 for the three and six month periods ended September 30, 2011.

Transition to International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. These standards were effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS was made and the current and comparative 2012 and 2011 financial information is presented under IFRS. The transition to IFRS impacted accounting, financial reporting, and internal control over financial reporting, taxes, information systems and processes.

For further information, see the section Transition to International Financial Reporting Standards (IFRS) contained in the condensed interim consolidated financial statements, notes 3 and 26 thereto and the MD&A for the three month period ended June 30, 2011 as well as the condensed interim consolidated financial statements and note 18 for the three and six month periods ended September 30, 2011.

Controls and Procedures

During the three months ended September 30, 2011 there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company will continue to monitor changes in IFRS in future periods. The standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS 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 financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount and useful life of property, plant and equipment and intangible assets, measurement of inventories, expected future tax, valuation allowances for receivables and future income taxes, the fair value of derivative instruments, asset retirement obligations, the treatment of uncertain tax positions, and assets and obligations related to employee future benefits, as disclosed in the notes to the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

Overview

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

RISKS RELATED TO THE COMPANY

The downturn in the global economy during the second half of 2009 and first half of 2010 caused a sharp reduction in worldwide demand for steel. Another protracted global recession or depression would have a material adverse effect on the steel industry and therefore the Company.

The Company's activities and results are affected by international, national and regional economic conditions. The downturn in the global economy in 2009 sparked by uncertainty in credit markets and deteriorating consumer confidence, sharply reduced demand for steel products. This had a pronounced negative effect on the Company and results of operations.

Another significant and prolonged recession or depression in the United States and Europe, or significantly slower growth or the spread of recessionary conditions to emerging economies that are substantial consumers of steel (such as China, Brazil, Russia and India, as well as emerging Asian markets, the Middle East and the CIS regions) would exact a heavy toll on the steel industry. Continued financial weakness among substantial consumers of steel products, such as the automotive industry and the construction industry, or the bankruptcy of any large companies in such industries, would have a negative impact in market conditions. Protracted declines in steel consumption caused by poor economic conditions in North America or by the deterioration of the financial condition of our key customers would have a material adverse effect on demand for the Company's products and hence on its results.

Steel companies have significant fixed costs, which are difficult to reduce in times of reduced demand. However, the Company could implement a variety of measures in response to a market downturn and a decline in demand for steel products. These may include: curtailing the purchase of raw materials; spreading raw material contracts over a longer period of time; reducing capital spending; negotiating reduced pricing for major inputs, reducing headcount through temporary layoffs, limiting overtime and reducing use of contractors; managing fixed costs with changes in production levels; improving operational practices to reduce lead time; and venturing into export markets in order to increase capacity utilization. However, these initiatives may not prove sufficient, in terms of cost reduction or in realigning the Company's production levels with reduced demand, to achieve profitability and maintain cash flow necessary to pay for capital expenditures and other funding needs.

The Company's utilization rates may decline as a result of increased global steel production and imports.

In addition to economic conditions and prices, the steel industry is affected by other factors such as worldwide production capacity and fluctuations in steel imports/exports and tariffs. Historically, the steel industry has suffered from substantial over capacity, and it is possible that global production levels will fail to adjust fully to rapidly falling demand or that production increases will outstrip demand increases in the early stages of recovery, resulting in an extended period of depressed prices and industry weakness.

The Company expects that consolidation in the steel sector in recent years should, as a general matter, help producers to maintain more consistent performance through the down cycle by preventing fewer duplicate investments and increasing producers' efficiency and economies of scale. In the context of another severe and/or protracted economic downturn, however, overcapacity in the industry may re-emerge.

RISKS RELATED TO THE COMPANY *(continued)*

As demand for steel has surged in China, India and other emerging markets, steel production capacity in these markets has also surged, and China is now the largest worldwide steel producing country by a significant margin. In 2006, China became a net exporter of steel, exerting downward pressure on steel prices in the European and US markets in that year, though its exports then slowed in 2007. In the second half of 2009, capacity expansion in the Chinese mills slowed and capacity utilization rates declined, resulting in decreased exports, however China remained a net exporter. As the global economy began to recover in 2010, capacity expansion in China progressed. In 2010, China was responsible for 44.3% of global steel production and remains a net exporter. In the future, any significant excess capacity in China and increased exports by Chinese steel companies would depress steel prices in many markets.

A protracted fall in steel prices would have a material adverse effect on the Company's results, as could price volatility.

Steel prices are volatile and the global steel industry has historically been cyclical. After rising during 2007 and through the summer of 2009, steel prices in global markets fell sharply beginning in the late summer of 2009 primarily as a result of collapsing demand and reduction in finished steel inventories, with demand remaining depressed through the first half of 2010. The fall in prices during this period adversely affected the results of steel producers generally as a result of lower revenues. Another protracted price or volume decline in the future would adversely affect the Company's cash flow and ability to pay for the Company's capital expenditures and other funding obligations.

The Company faces significant domestic and international competition, and there is a possibility that increased use of competitive products could cause sales to decline.

The Company competes with numerous foreign and domestic steel producers. Some of the Company's competitors have greater financial and capital resources than the Company does and continue to invest heavily to achieve increased production efficiencies and improved product quality. The Company primarily competes with other steel producers based on the delivered price of finished products to the Company's customers. The Company's costs are higher than many foreign producers; however freight costs for steel can often make it uneconomical for distant steel producers to compete with us. Foreign producers may be able to successfully compete if their higher shipping costs are offset by lower cost of sales. Although the Company is continually striving to improve its operating costs, it may not be successful in achieving cost improvements or gaining operating efficiencies that may be necessary to remain competitive on a global scale.

The domestic steel industry has, in the past, experienced lengthy periods of difficult markets due to increased foreign imports. Due to unfavorable foreign economic conditions, excess foreign capacity and a stronger US dollar compared to global currencies, imports of steel products to the US and Canadian markets have occasionally reached high levels.

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

Low-priced steel imports and decreased trade regulation could impact the North American market, resulting in a loss of sales volume, and could adversely affect prices for the Company's products and the Company's results of operations.

Our business has historically been affected by both Canadian and United States trade legislation intended to limit "dumping" – the selling of steel into the United States or Canadian markets at prices below cost or below the price prevailing in a foreign company's domestic market. Dumping may result in injury to companies producing goods in Canada or the US in the form of suppressed prices, lost sales, lower profits and reductions in production, employment levels and the ability to raise capital. Although in a number of cases Canadian trade laws have been successfully employed in the past, they may be inadequate to prevent future unfair import pricing practices which individually or collectively could materially adversely affect the Company.

If Canadian trade laws are weakened, world demand for steel decreases, or the US or Canadian dollars strengthen against foreign currencies, an increase in the market share of imports into Canada may occur, which could have a material adverse effect on the Company. Moreover, trade regulations in other countries, particularly the United States, could materially adversely affect us to the extent that they reduce or eliminate the Company's access to certain steel markets. There can be no assurances that the Company will be able to compete effectively in the future.

RISKS RELATED TO THE COMPANY *(continued)*

The North American steel industry and certain industries the Company serves, such as the automotive, construction, appliance, machinery and equipment, and transportation industries, are cyclical, and prolonged economic declines could have a material adverse effect on the Company's business. The Company initiated a bankruptcy proceeding in 1990 and sought protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA") in 2001.

The North American steel industry is cyclical in nature and sensitive to general economic conditions. The financial condition and results of operation of companies in the steel industry are generally affected by macroeconomic fluctuations in the Canadian, US and global economies. Due mainly to the Company's product mix, it has a higher exposure to spot markets than most of the Company's North American competitors and are, therefore, subject to more volatility in the Company's selling prices. In addition, steel prices are sensitive to trends in cyclical industries such as the North American automotive, construction, appliance, machinery and equipment, and transportation industries, which are significant markets for the Company's products. Recent economic situations have negatively impacted the Company's performance. In addition, many of the Company's customers are also affected by economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to us and would negatively impact the Company's financial results and cash flows.

The Company experienced financial difficulties in 1990 after suffering a \$702 million loss in that year, in part resulting from a lengthy labour strike. The Company initiated a bankruptcy proceeding in 1990 and emerged from bankruptcy protection by way of a \$60 million bridge loan from the Government of Ontario. In April 2001, the Company's liquidity was exhausted, due to, among other things, the slow ramp-up of the DSPC, the cash drain from operations, a decrease in supplier credit due to earlier payment demands and a decrease in the collateral value of the Company's working capital which decreased availability under the Company's banking facility. The Company also suffered from high debt service costs associated with the Company's capital expenditure program and a weakness in short-term steel markets combined with the impact of low-priced imported steel in North American markets. On April 23, 2001, the Company sought protection from creditors under the CCAA, emerging there from in 2002. There can be no assurance that the Company will not experience serious financial difficulties in the future.

Our operations could be affected by labour interruptions and difficulties.

We have approximately 3,140 full-time employees as of September 30, 2011, of which approximately 3,000, accounting for 95.5% of the Company's employees, are represented by two locals of the United Steelworkers of America ("USW") under two collective bargaining agreements. During the three months ended September 30, 2010, the Company ratified labour agreements with Local 2724 and 2251. The new agreements are in place effective August 1, 2010 for 4 years for Local 2724 and 3 years for Local 2251. The Company may be unable to successfully negotiate future collective bargaining agreements without any labour disruption.

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

All of the Company's operations are conducted at one facility and are subject to unexpected equipment failures and other business interruptions.

The Company's manufacturing processes are dependent upon critical steelmaking equipment such as furnaces, continuous casters, rolling mills, and electrical equipment (such as transformers), and this equipment may incur downtime as a result of unanticipated failures. The Company has experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures.

On January 21, 2011 Blast Furnace #7 experienced significant water leakage and this ultimately led to the chilling of the furnace. Production of raw steel was halted for 23 days with production returning to normal after 33 days. On September 30, 2011 the Company reached agreement with its insurers in final settlement of the loss suffered as a result of the chilling of Blast Furnace #7.

Unexpected interruptions in production capabilities would adversely affect productivity and results of operations for the affected period. No assurance can be given that a significant shutdown will not occur in the future or that such a shutdown will not have a material adverse effect on the Company's business, financial condition or results of operations. In addition, an unexpected failure in the Company's computer system may have the same result.

RISKS RELATED TO THE COMPANY *(continued)*

Adverse Impact of the Company's Level of Indebtedness

The Company has significant debt obligations. If the Company is unable to meet its debt obligations, it may need to consider refinancing or amending credit agreements or adopting alternative strategies to reduce or delay expenditures, selling assets or seeking additional equity capital. In addition, the Company is exposed to interest rate risk, which 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.

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

- it may limit the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes;
- a substantial portion of the Company's cash flow from operations must be dedicated to the payment of interest on the Company's indebtedness and is not available for other purposes, including its operations, capital expenditures and future business opportunities;
- borrowings under the Revolving Credit Facility are at variable rates of interest, exposing the Company to the risk of increased interest rates;
- it may limit the Company's ability to adjust to changing market conditions and place it at a competitive disadvantage compared to its competitors that have less debt;
- the Company may be vulnerable in a downturn in general economic conditions or in its business, or it may be unable to carry out capital spending that is important to its growth; and
- borrowings under the Revolving Credit Facility are based on eligible inventories and receivables and it can take several weeks for orders to be converted into cash. In periods of rising steel markets the Company may not have sufficient eligible inventory and receivables to borrow amounts needed to support increased working capital needs of the business.

Financial Restrictions

The Company's Revolving Credit Facility, Secured Notes and Senior Notes contain 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's ability to comply with these restrictions may be affected by events beyond its control. The Company may not achieve operating results that will permit it to meet these restrictive covenants or may need to take business actions prohibited by these covenants. These covenants may also limit the Company's ability to obtain additional or more favourable financing. In addition, substantially all of the Company's receivables and inventories have been pledged to secure its Revolving Facility.

Our business requires substantial capital investment, capital commitments and maintenance expenditures which the Company may have difficulty in meeting and will cause us to incur operating costs.

Our operations are capital intensive. The Company expects to be required to make ongoing capital and maintenance expenditures in an effort to achieve and maintain competitive levels of capacity, cost, productivity and product quality. The Company may not generate sufficient future operating cash flow and external financing sources may not be available in an amount sufficient to enable us to make anticipated capital expenditures, service or refinance the Company's indebtedness, or fund other liquidity needs.

We are dependent upon a small number of customers.

We are dependent upon a small number of customers. The Company's top ten customers accounted for approximately 46% of sales in the three month period ended September 30, 2011. Accordingly, a disruption of sales to certain of these customers could have a material adverse effect on the Company's results of operations and financial condition, particularly given the current economic environment.

The supply and cost of raw materials and energy could lower the Company's results of operations and harm the Company's financial condition.

Our operations require substantial amounts of raw materials and energy including coal, iron ore, alloys, scrap, oxygen, natural gas, electricity and other inputs. The price and availability of such raw materials and inputs are subject to market forces and, in some cases, government regulations and accordingly, are subject to change. The Company's results of operations could be adversely affected by supply interruptions or further increases in the cost of materials. There can be no assurance that adequate supplies of oxygen, electricity, natural gas, coal, iron ore or alloys will be available in the future or that future increases in the cost of such materials will not adversely affect the Company's operations.

RISKS RELATED TO THE COMPANY *(continued)*

Any increases in annual funding obligations resulting from the Company's under-funded pension plans could have a material adverse effect on us.

We have an under-funded pension liability which could increase due to changes to the Company's collective bargaining agreements, a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations.

Post-employment benefits owed to the Company's retirees could increase and obligate us to make greater payments.

We provide certain post-employment benefits to the Company's retirees. These benefits include drug, life insurance and hospitalization coverage. The Company does not pre-fund these obligations. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by the Canadian government to us.

Currency fluctuations, including a significant increase in the value of the Canadian dollar, could have a materially adverse affect the Company's results of operations and financial condition.

Increases in the value of the Canadian dollar relative to the US dollar make Canadian steel products and Canadian customers less competitive in US markets and also encourage imports from the US. The increase in the value of the Canadian dollar relative to the US dollar will also have a negative impact on expenditures in Canadian dollars. Therefore, a significant increase in the value of the Canadian dollar could adversely affect the Company's results of operations and financial condition.

Environmental compliance and remediation could result in substantially increased costs and could materially adversely affect the Company's competitive position.

The Company is required to comply with an evolving body of federal, provincial and local environmental laws concerned with, among other things, emissions into the air, discharges to surface and ground water, the investigation and remediation of contaminated property, noise control, waste management and disposal, mine closure and rehabilitation, and the generation, handling, storage, transportation, presence and disposal of, or exposure to hazardous substances. Restoration of capacity or an increase in capacity would require significant capital expenditures in order to comply with applicable environmental laws, as described under "Management's discussion and analysis of financial condition and results of operations—Liquidity and Capital Resources." Significant expenditures could also be required for compliance with any future laws or regulations relating to greenhouse gas or other emissions.

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

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to apply technology or process changes to mitigate noise levels from identified sources within the Sault Ste. Marie operations. It is estimated that the capital cost associated with the noise abatement plan is in the order of \$6 million to be completed by 2013.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to install within ten months after start up, certain equipment in the No. 6 Blast Furnace to reduce casthouse emissions. The cost of this equipment and its installation is currently estimated at approximately \$18 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors. Within this same Certificate of Approval are additional requirements for the Company to implement environmental improvements which the Company is currently assessing. Included are the following items.

1. The Company is required to install individual oven pressure control technology on its #9 battery by October 31, 2011, at an estimated cost of \$10 million.

RISKS RELATED TO THE COMPANY *(continued)*

2. The Company was required to install door and jamb cleaners on its #7 Coke Oven Battery by June 30, 2011. The company has approached the Ministry of Environment for an extension of one year. The company is awaiting the Ministry response. The estimate of for this project is in the order of \$4.5 million.

3. The Company is required to install a new baghouse to be operational for the startup of the #2 LMF facility. There is no time line on this requirement. The estimate for the baghouse is \$8.2 million.

The Government of Canada has recently passed legislation that requires the removal from service electrical transformers containing PCBs by 2014. It is estimated that the cost of complying with this legislation will be in the order of \$12.9 million.

The Company is required to fund the capital and operating cost of a mine closure in Wawa involving capital costs of approximately \$3.1 million during the period of 2011 to 2020. Future operating costs for the mine closure program are estimated at \$50,000 annually until 2019, and then \$200,000 commencing in 2019 for the foreseeable future. Financial assurance in the order of \$7.4 million has been provided to the Province of Ontario in the form of a letter of credit.

Financial assurance in the order of \$2.0 million has been provided to the Province of Ontario in the form of a letter of credit for reclamation of the landfill site in Sault Ste. Marie, Ontario. .

Our Environment, Health and Safety Department regularly reviews and audits the Company's operating practices to monitor compliance with the Company's environmental policies and legal requirements. The Company's environmental management system is ISO 14001 registered.

No assurance can be given that unforeseen changes, such as new laws or stricter enforcement policies, or a crisis at one of the Company's properties or operations, will not have a material adverse effect on the Company's business, estimated capital or operating costs, financial condition, or results of operations. The Company's operations are required to have governmental permits and approvals. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect the Company's operations and may subject us to penalties. In addition, if environmental laws are amended or are interpreted or enforced differently, or if new environmental legislation is enacted, the Company may be required to obtain additional operating permits or approvals and incur additional costs. There can be no assurance that the Company will be able to meet all applicable regulatory requirements. In addition, the Company may be subject to fines, penalties or other liabilities arising from the Company's actions imposed under environmental laws, including as a result of actions or other proceedings commenced by third parties, such as neighbors or government regulators.

Pending or threatened litigation or claims could negatively affect our profitability and cash flow in a particular period.

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.

Failure to maintain the Company's current senior management or inability to attract additional senior management could have an adverse effect on the Company's operations.

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

A failure to maintain adequate insurance could have a materially adverse effect on the Company's operations.

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

RISKS RELATED TO THE COMPANY *(continued)*

Our income tax filing positions may be subject to challenge by tax authorities which could subject us to increased tax liabilities.

The Company files tax returns that may contain interpretations of tax law and estimates. Positions taken and estimates utilized by the company may be challenged by the CRA. Rulings that alter tax returns filed may have an adverse impact on income.

Technology and Competition

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

Competition of Products with Other Materials

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

The controlling shareholder of Essar Steel Holdings will be able to determine the Company's corporate policies and direct the outcome of corporate actions requiring shareholder approval.

The Ruia family controls, directly or indirectly, 100% of the Company's equity. As a result, the controlling shareholders have the ability to determine the Company's corporate policies, appoint all of the Company's directors (other than representatives pursuant to the Company's collective bargaining agreements) and officers and control those corporate actions requiring shareholder approval. In particular, the strategic goals of the controlling shareholders may not be aligned with the Company's strategy and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. In addition, the failure of the controlling shareholders to maintain a direct or indirect control and ownership interest of at least 51% of the Company's equity may result in a change of control under the indenture and under other debt instruments.

Supplementary Data

SELECTED QUARTERLY AND ANNUAL INFORMATION

For the three month period ended	Sales	EBITDA (i)	Income (loss) from operations	Income (loss) before income taxes	Net income (loss)
Sept 30, 2011	\$ 564.0	\$ 86.9	\$ 61.3	\$ 110.9	\$ 73.7
June 30, 2011	566.0	108.9	60.8	42.1	33.2
YTD Sept 30, 2011	\$ 1,130.0	\$ 195.8	\$ 122.1	\$ 153.0	\$ 106.9
Mar 31, 2011 (ii)	\$ 386.1	\$ 20.0	\$ (73.6)	\$ (114.1)	\$ (79.9)
Dec 31, 2010 (ii)	436.6	(155.1)	(205.0)	(257.6)	(187.1)
Sept 30, 2010 (ii)	469.9	10.4	(32.6)	(85.2)	(58.1)
June 30, 2010 (ii)	475.7	65.9	22.2	41.6	21.1
YTD Mar 31, 2011 (ii)	\$ 1,768.3	\$ (58.8)	\$ (289.0)	\$ (415.3)	\$ (304.0)
Mar 31, 2010	\$ 464.8	\$ 24.9	\$ (30.4)	\$ (82.0)	\$ (68.3)
Dec 31, 2009	308.0	16.7	(66.7)	(103.6)	(63.3)
Sept 30, 2009	388.3	27.2	(37.5)	(133.4)	(120.8)
June 30, 2009	248.3	(19.2)	(83.8)	(168.2)	(143.5)
YTD Mar 31, 2010	\$ 1,409.4	\$ 49.6	\$ (218.4)	\$ (487.2)	\$ (395.9)
Mar 31, 2009	\$ 402.8	\$ (10.1)	\$ (85.5)	\$ (41.0)	\$ (3.5)
Dec 31, 2008	533.6	16.0	(156.9)	(69.1)	(14.2)
Sept 30, 2008	850.5	243.2	161.4	191.8	146.0
June 30, 2008	760.6	204.3	151.1	131.8	89.0
YTD Mar 31, 2009	\$ 2,547.5	\$ 453.4	\$ 70.1	\$ 213.5	\$ 217.3

(i) EBITDA is a non-IFRS measure and is defined on page 2 of this report. EBITDA excludes exceptional items.

(ii) Prior to April 1, 2011 the company's financial statements were prepared in accordance with previous CGAAP. During the three month period ended June 30, 2011, the Company adopted IFRS with a Transition Date as at April 1, 2010 and restated the 2011 financial results to be in accordance with IFRS. Further details regarding the transition to IFRS are included in Note 27 of the condensed interim consolidated financial statements for the three months ended June 30, 2011 and Note 18 of the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2011.

Supplementary Data

SELECTED QUARTERLY AND ANNUAL SALES INFORMATION (in thousands of tons)

For the three month period ended	Sheet	Plate	Slabs	Total
Sep 30, 2011	563	108	2	673
June 30, 2011	536	104	1	641
YTD Sep 30, 2011	1,099	212	3	1,314
Mar 31, 2011	434	92	-	526
Dec 31, 2010	524	106	-	630
Sep 30, 2010	517	101	-	618
June 30, 2010	514	99	-	613
YTD Mar 31, 2011	1,989	398	-	2,387
Mar 31, 2010	596	102	-	698
Dec 31, 2009	413	58	-	471
Sep 30, 2009	581	75	-	656
June 30, 2009	327	64	8	399
YTD Mar 31, 2010	1,917	299	8	2,224
Mar 31, 2009	435	85	4	524
Dec 31, 2008	385	113	10	508
Sep 30, 2008	569	165	7	741
June 30, 2008	633	167	-	800
YTD Mar 31, 2009	2,022	530	21	2,573