

Interim Consolidated Financial Statements
ESSAR STEEL ALGOMA INC.
(Unaudited)
For the period ended December 31, 2010

ESSAR Steel Algoma Inc.
Interim Consolidated Statements of Loss

(Unaudited)

Expressed in millions of Canadian dollars

	Three months ended December 31 2010	Nine months ended December 31 2010	Three months ended December 31 2009	Nine months ended December 31 2009
Sales	\$ 436.6	\$ 1,382.2	\$ 308.0	\$ 944.6
Operating expenses				
Cost of sales excluding amortization	573.2	1,356.8	314.9	937.0
Amortization	42.3	133.2	41.6	140.8
	<u>615.5</u>	<u>1,490.0</u>	<u>356.5</u>	<u>1,077.8</u>
Administrative and selling	19.1	49.1	12.4	36.4
Amortization of intangible assets and non-production assets	5.8	17.4	5.8	18.4
	<u>640.4</u>	<u>1,556.5</u>	<u>374.7</u>	<u>1,132.6</u>
Loss from operations	<u>(203.8)</u>	<u>(174.3)</u>	<u>(66.7)</u>	<u>(188.0)</u>
Financial expense (income)				
Interest on long-term liabilities	20.4	59.7	20.4	56.9
Interest on short-term liabilities, net	1.3	4.3	1.3	0.4
Foreign exchange loss	29.0	20.5	14.7	158.6
Investment (income) loss	(1.4)	(1.6)	0.5	1.4
	<u>49.3</u>	<u>82.9</u>	<u>36.9</u>	<u>217.3</u>
Loss before income taxes	<u>(253.1)</u>	<u>(257.2)</u>	<u>(103.6)</u>	<u>(405.3)</u>
Income taxes (note 9)				
Current recovery	(12.5)	-	(23.8)	(57.3)
Future recovery	(45.7)	(62.4)	(16.5)	(20.4)
	<u>(58.2)</u>	<u>(62.4)</u>	<u>(40.3)</u>	<u>(77.7)</u>
Net loss for the periods	<u>\$ (194.9)</u>	<u>\$ (194.8)</u>	<u>\$ (63.3)</u>	<u>\$ (327.6)</u>
Attributable to:				
Equity owners	(194.9)	(194.8)	(64.7)	(330.5)
Non-controlling interests	-	-	1.4	2.9
	<u>\$ (194.9)</u>	<u>\$ (194.8)</u>	<u>\$ (63.3)</u>	<u>\$ (327.6)</u>

Interim Consolidated Statements of Comprehensive Loss and (Deficit) Retained Earnings

Net loss for the periods	\$ (194.9)	\$ (194.8)	\$ (63.3)	\$ (327.6)
Unrealized loss on foreign exchange translation	(10.5)	(5.4)	(8.8)	(145.6)
Comprehensive loss for the periods	<u>\$ (205.4)</u>	<u>\$ (200.2)</u>	<u>\$ (72.1)</u>	<u>\$ (473.2)</u>
Attributable to:				
Equity owners	(205.4)	(200.2)	(74.1)	(474.7)
Non-controlling interests	-	-	1.4	2.9
	<u>\$ (205.4)</u>	<u>\$ (200.2)</u>	<u>\$ (72.7)</u>	<u>\$ (471.8)</u>
(Deficit) retained earnings				
Balance, beginning of periods	\$ (192.9)	\$ (193.0)	\$ (59.9)	\$ 205.9
Net loss for the periods	(194.9)	(194.8)	(64.7)	(330.5)
Balance, end of periods	<u>\$ (387.8)</u>	<u>\$ (387.8)</u>	<u>\$ (124.6)</u>	<u>\$ (124.6)</u>

See accompanying notes to the consolidated financial statements

ESSAR Steel Algoma Inc.
Interim Consolidated Balance Sheets
(Unaudited)
Expressed in millions of Canadian dollars

	December 31 2010	March 31 2010 (Note 2)
Assets		
Current		
Cash and cash equivalents	\$ 7.0	\$ 40.2
Accounts receivable (note 11)	181.1	203.5
Income taxes receivable (note 9)	10.8	21.4
Loan receivable from related party (note 11)	11.2	-
Inventories (note 3)	380.6	289.3
Prepaid expenses	21.4	7.4
Future income tax assets (note 9)	2.5	1.5
Total current assets	<u>614.6</u>	<u>563.3</u>
Property, plant and equipment, net	1,430.2	1,552.8
Intangible assets, net	101.2	116.5
Other assets (note 5)	1.7	2.5
	<u>\$ 2,147.7</u>	<u>\$ 2,235.1</u>
Liabilities and shareholder's equity		
Current		
Bank indebtedness (note 4)	\$ 122.2	\$ 92.2
Accounts payable and accrued liabilities (note 11)	337.5	194.1
Income taxes payable (note 9)	-	0.3
Accrued pension liability and post-employment benefit obligation (note 6)	82.7	71.0
Current portion of capital leases and other long-term liabilities	2.1	2.2
Future income tax liabilities (note 9)	3.5	3.5
Total current liabilities	<u>548.0</u>	<u>363.3</u>
Long-term debt (note 5)	761.5	776.5
Accrued pension liability (note 6)	77.0	82.7
Accrued post-employment benefit obligation (note 6)	415.8	405.0
Other long-term liabilities	8.6	9.2
Future income tax liabilities (note 9)	147.1	208.5
	<u>1,410.0</u>	<u>1,481.9</u>
Commitments and contingencies (note 10)		
Shareholder's equity		
Capital stock (note 8)	490.4	490.4
Contributed surplus	58.2	58.2
Accumulated other comprehensive income (note 7)	28.9	34.3
Deficit	(387.8)	(193.0)
	<u>189.7</u>	<u>389.9</u>
Total liabilities and shareholder's equity	<u>\$ 2,147.7</u>	<u>\$ 2,235.1</u>

See accompanying notes to the consolidated financial statements

ESSAR Steel Algoma Inc.
Interim Consolidated Statements of Cash Flows

(Unaudited)

Expressed in millions of Canadian dollars

	Three months ended December 31 2010	Nine months ended December 31 2010	Three months ended December 31 2009	Nine months ended December 31 2009
Operating activities				
Net loss for the periods	\$ (194.9)	\$ (194.8)	\$ (63.3)	\$ (327.6)
Adjustments and items not affecting cash:				
Amortization	48.0	150.4	47.4	159.2
Future income tax recovery	(45.7)	(62.4)	(16.5)	(20.4)
Pension expense in excess of current funding	3.1	5.2	0.9	1.3
Unrealized foreign exchange loss on accrued pension liability	4.7	2.9	2.5	25.3
Post-employment benefit expense in excess of payments	3.7	11.6	1.4	5.9
Unrealized foreign exchange loss on accrued post-employment benefit obligation	14.7	9.1	7.8	77.7
Change in the fair value of embedded derivatives	0.8	(0.1)	-	-
Loss on disposal of property, plant and equipment	0.2	1.5	0.4	1.1
Unrealized foreign exchange loss on future income taxes	5.9	3.1	4.4	45.0
Other	1.4	1.1	(8.0)	(4.7)
	<u>(158.1)</u>	<u>(72.4)</u>	<u>(23.0)</u>	<u>(37.2)</u>
Changes in non-cash operating working capital	<u>80.8</u>	<u>63.1</u>	<u>(98.3)</u>	<u>(180.4)</u>
	<u>(77.3)</u>	<u>(9.3)</u>	<u>(121.3)</u>	<u>(217.6)</u>
Investing activities				
Acquisition of property, plant and equipment	(16.6)	(43.5)	(16.7)	(68.1)
Proceeds on sale of held for sale assets	-	-	136.0	136.0
Acquisition of intangible asset	(0.2)	(1.3)	(0.3)	(0.6)
Restricted cash	-	-	-	1.9
Loan/receivable from related party (note 11)	(0.1)	(11.3)	5.5	2.0
	<u>(16.9)</u>	<u>(56.1)</u>	<u>124.5</u>	<u>71.2</u>
Financing activities				
Bank indebtedness, net	84.9	30.9	(78.1)	30.8
Proceeds of Secured Notes	-	-	402.1	402.1
Repayment of term loan	-	-	(327.8)	(331.9)
Other	0.4	0.4	(0.7)	(0.7)
	<u>85.3</u>	<u>31.3</u>	<u>(4.5)</u>	<u>100.3</u>
Effect of exchange rate changes on cash and cash equivalents	(0.1)	0.9	(0.3)	(5.3)
Cash and cash equivalents				
Change during periods	(9.0)	(33.2)	(1.6)	(51.4)
Balance, beginning of periods	16.0	40.2	11.1	60.9
Balance, end of periods	<u>\$ 7.0</u>	<u>\$ 7.0</u>	<u>\$ 9.5</u>	<u>\$ 9.5</u>
Changes in non-cash operating working capital				
Accounts receivable	23.8	18.2	\$ 9.8	\$ (28.6)
Income taxes receivable/payable	(16.1)	7.6	(19.7)	(67.3)
Inventories (note 3)	(68.2)	(100.4)	(72.0)	(121.1)
Prepaid expenses	(11.9)	(14.7)	(12.9)	15.7
Accounts payable and accrued liabilities	153.2	152.4	(3.5)	20.9
	<u>\$ 80.8</u>	<u>\$ 63.1</u>	<u>\$ (98.3)</u>	<u>\$ (180.4)</u>
Supplemental cash flow information				
Income taxes (refunded) paid	\$ (6.8)	\$ (17.1)	\$ -	\$ 2.0
Interest paid	<u>\$ 20.2</u>	<u>\$ 61.7</u>	<u>\$ 26.8</u>	<u>\$ 55.2</u>

See accompanying notes to the consolidated financial statements

Interim Consolidated Financial Statements

ESSAR Steel Algoma Inc.

(Unaudited)

December 31, 2010

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Unaudited)

[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

1. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared using the same accounting principles and methods as were used for the consolidated financial statements for the year ended March 31, 2010. Management is required to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements. Management believes that the estimates are reasonable; however, actual results could differ from those estimates. The disclosures in these interim consolidated financial statements do not meet all disclosure requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements and should be read in conjunction with the consolidated financial statements of ESSAR Steel Algoma Inc. (the "Company") for the year ended March 31, 2010 and the notes thereto.

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. The Company had a subsidiary which generated and sold electricity from commencement of operations on June 13, 2009 until November 17, 2009, at which time the Company sold its interest to a related company.

The Company's functional currency is the United States dollar ("U.S. \$") which reflects the Company's exposure to the U.S. dollar. The Company uses the Canadian dollar as its reporting currency. In accordance with Canadian GAAP, all amounts presented in these interim consolidated financial statements are translated into Canadian dollars ("Cdn. \$") 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. \$0.9946 per U.S. \$1.00 for December 31, 2010; Cdn. \$1.0158 per U.S. \$1.00 for March 31, 2010). Equity transactions have been translated at historical rates. The resulting net translation adjustment has been recorded in other comprehensive income or loss.

2. CHANGE IN ACCOUNTING POLICY

In October 2008, the Canadian Institute of Chartered Accountants ("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.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

2. CHANGE IN ACCOUNTING POLICY *(continued)*

These new standards were effective for the Company on April 1, 2010. The adoption did not have a material impact on the Company's interim consolidated financial statements other than the reclassification of prior year non-controlling interests in the Interim Consolidated Statements of Loss and Comprehensive Loss and (Deficit) Retained Earnings.

The CICA Handbook Section 3064, "Goodwill and Intangible Assets", was revised in February 2008 and replaced Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". The new section established standards for the recognition, measurement and disclosure of goodwill and intangible assets and was effective for the period commencing April 1, 2009. The Company corrected the balance sheet classification of software costs from property, plant and equipment to intangibles during the quarter along with the comparative figures at March 31, 2010 to conform to the requirements of the section. The net book value of software costs reclassified was \$15.1 million at December 31, 2010 (March 31, 2010 - \$19.3 million). The adoption of the section did not have an impact on the Company's interim and year-end consolidated financial statements other than the reclassification described previously.

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 April 1, 2011. The Company is evaluating the impact of these new standards.

3. INVENTORIES

Inventory write-downs during the period from October 1, 2010 to December 31, 2010 amounting to \$15.1 million and April 1, 2010 to December 31, 2010 of \$16.5 million (period from October 1, 2009 to December 31, 2009 - nil and April 1, 2009 to December 31, 2009 - \$12.2 million) were recorded to adjust inventories to net realizable value and recognized as an expense in cost of sales during the period. There have been no reversals in the period of any previously recorded inventory write-downs.

Inventory values at December 31, 2010 include a value attributable to iron ore. In previous quarters for the current fiscal year, based upon the facts and circumstances known at that time, the Company was not able to estimate the impact of the Cleveland Cliffs iron ore pricing dispute (see note 10). Starting October 1, 2010, the Company had agreed to an interim price with Cliffs through to the final decision on arbitration, which was reached during the current quarter. To the extent that the 2010 price increase had not been previously recognized, the Company recognized as an expense in the current quarter the incremental amount of the increase that relates to its first and second quarter sales and related inventory impact. Accordingly, the Company's current

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[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

3. INVENTORIES *(continued)*

quarter financial results reflect the total year-to-date impact of higher iron ore prices, including the incremental amount related to previous quarters that increased the Company's operating loss by approximately \$107.8 million in the current quarter.

4. BANKING FACILITIES

On June 20, 2007, the Company 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 a maximum lender commitment and a calculated 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 inventories of the Company and a secondary claim on the rest of the Company's assets. In addition to satisfying the borrowing base requirements, in order to make borrowings under the Revolving Facility, the Company is required to either meet a fixed charge coverage ratio test or maintain a minimum excess availability of 10% of the Revolving Facility commitment. At December 31, 2010, the Company is required to maintain a minimum excess availability equal to U.S. \$35 million.

At December 31, 2010, there was \$122.2 million (March 31, 2010 - \$92.2 million) outstanding under the Revolving Facility and \$174.1 million (March 31, 2010 - \$163.9 million) of unused availability after taking into account \$16.8 million of outstanding letters of credit and the U.S. \$35 million minimum excess availability requirement. In addition, the Company had \$7.0 million of unrestricted cash at December 31, 2010 (March 31, 2010 - \$40.2 million).

Under the terms of the Revolving Facility, the Company is 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 December 31, 2010.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

5. LONG-TERM DEBT

	December 30, 2010	March 31, 2010
	\$	\$
9.375% Senior Secured Notes denominated in U.S. dollars, due March 15, 2015	\$ 382.6	\$ 406.1
9 7/8% Senior Notes denominated in U.S. dollars, due June 15, 2015	397.8	390.8
	780.4	796.9
Less unamortized financing costs, premiums, and/or discounts	18.9	20.4
	\$ 761.5	\$ 776.5

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

	\$
2011	-
2012	-
2013	-
2014	-
2015	382.6
Thereafter	397.8
	780.4

Prepayment options in both the 9.375% Senior Secured Notes and 9 7/8% Senior 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 other assets, which had estimated fair values of \$0.2 million and \$4.9 million respectively on issuance, and have estimated fair values of \$0.2 million and nil respectively at December 31, 2010 (March 31, 2010 – \$0.1 million and \$0.1 million, respectively).

Unamortized financing costs, and discounts or premiums related to the Secured Notes or the Senior Notes totaling \$18.9 million at December 31, 2010 (March 31, 2010 – \$20.4 million) are recorded as a component of the carrying amount of the related debt and are amortized to income using the effective interest rate method.

Under the terms of the 9.375% Senior Secured Notes and the 9 7/8% Senior Notes, the Company is required to be in compliance with various restrictive covenants which, among other things, limit

ESSAR Steel Algoma Inc.

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[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

5. LONG-TERM DEBT *(continued)*

the incurrence of additional indebtedness, limit investments 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 these requirements at December 31, 2010.

6. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Pension expense and funding for the Company for the period from October 1, 2010 to December 31, 2010 was \$14.1 million and \$11.0 million, respectively and April 1, 2010 to December 31, 2010 was \$42.6 million and \$37.4 million, respectively (period from October 1, 2009 to December 31, 2009 - \$13.7 million and \$12.8 million, respectively and period from April 1, 2009 to December 31, 2009 - \$39.5 million and \$38.3 million, respectively).

Post-employment benefits expense and funding for the Company for the period from October 1, 2010 to December 31, 2010 was \$7.6 million and \$3.9 million, respectively and April 1, 2010 to December 31, 2010 was \$22.7 million and \$11.1 million, respectively (period from October 1, 2009 to December 31, 2009 - \$5.0 million and \$3.6 million, respectively and period from April 1, 2009 to December 31, 2009 - \$17.7 million and \$11.8 million, respectively).

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	December 31, 2010	March 31, 2010
	\$	\$
Balance, beginning of period	34.3	193.7
Other comprehensive loss for the period		
Unrealized loss on foreign exchange translation	(5.4)	(159.4)
Balance, end of period	28.9	34.3

ESSAR Steel Algoma Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

8. CAPITAL STOCK

Authorized

Unlimited common shares

The following table summarizes the capital stock transactions of the Company 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, 2007 to March 31, 2008	500,000,000	531.8
Balance, March 31, 2008	500,010,000	531.8
Return of capital	—	41.4
Balance, March 31, 2010 and December 31, 2010	500,010,000	490.4

9. INCOME TAXES

The following table details the variation between the Company's provision for (recovery of) income taxes and the statutory income tax rate:

	October 1, 2010 to December 31, 2010	April 1, 2010 to December 31, 2010	October 1, 2009 to December 31, 2009	April 1, 2009 to December 30, 2009
	\$	\$	\$	\$
Recovery of income taxes at the statutory manufacturing and processing rate of 28.4% (December 31, 2009 - 30.8%)	(71.9)	(73.0)	(32.2)	(125.6)
Increase (decrease) in income taxes resulting from:				
Impact of non-deductible foreign exchange loss	9.5	6.0	7.0	65.2
Benefit of reduction in future income tax rates	-	-	(16.0)	(16.0)
Benefit of current period tax loss recognized using future tax rate lower than statutory rate	4.5	4.5	-	-
Other	(0.3)	0.1	0.9	(1.3)
	(58.2)	(62.4)	(40.3)	(77.7)

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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9. INCOME TAXES *(continued)*

Loss carryforwards

In the second quarter of fiscal 2010, the Canada Revenue Agency (“CRA”) concluded 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 2002 financial reorganization. The CRA reduced the fair market value assigned to the common shares to \$126.4 million and, as a result, reassessed the Company’s 2002 to 2006 taxation years to reflect a reduced amount of available non-capital loss carryforwards. The Company had filed an objection to the CRA reassessments. No provision had been made in the consolidated statement of income (loss) for the income taxes or interest associated with the reassessments. The Company had paid the CRA reassessments which totaled \$2 million including \$0.5 million of interest, and had reflected this amount as a recoverable netted with income and other taxes payable in the consolidated balance sheet. In October 2010, the CRA issued notices of reassessment which accepted the objection filed by the Company and refunded the amounts previously paid in addition to refund interest.

Scientific research and experimental development claims

For the years 2002 to 2010, the Company has filed, or intends to file, scientific research and experimental development claims with the CRA totaling \$366.7 million. The potential tax benefit of these claims is 20-24% of the claims or \$74.6 million. Prior to 2002, the Company had no history of filing claims of comparable size. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. Other than for 2002, the claims have not had final audit assessment. The CRA has denied \$8.2 million of the investment tax credits claimed by the Company for 2002. The Company has objected to the assessment. In August 2010, the Company came to an agreement with the CRA for the claims for taxation years 2003 to 2005 and is awaiting final assessment. The Company is currently in the process of evaluating claims for fiscal 2011.

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 \$31.9 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. No additional adjustments have been made for any related tax benefit in the consolidated statements of income (loss) during the current fiscal year.

10. COMMITMENTS AND CONTINGENCIES

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 interim consolidated financial statements. In addition, the Company is involved in and potentially subject to regular audits from federal and

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

10. COMMITMENTS AND CONTINGENCIES *(continued)*

provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits, may receive assessments and reassessments.

Prices under the Cleveland Cliffs iron ore purchase agreement had been reset annually under a pricing formula that was based on certain published benchmark pricing factors. The calendar year 2010 price was never finalized under this formula as certain of the benchmark pricing factors ceased to be published. The supplier had however issued a letter on May 21, 2010 estimating the price at an increase of 130% with which the company disagreed. The company filed for arbitration with respect to this dispute and had agreed to an interim price with Cliffs from October 1, 2010 through to the final decision on arbitration. On December 18, 2010, the Company announced the decision of the Arbitration Panel in favour of Cliffs Mining Company. This decision resulted in replacement benchmark factors and an interim pricing mechanism pending publication of the replacement benchmark factors. The calendar year 2010 price is not finalized as all such factors have not yet been published. The appropriate accrual under the replacement benchmark factors has been estimated at December 31, 2010 (note 3). The company has filed a court application to vacate the arbitration award on the basis the Arbitration Panel exceeded its jurisdiction. If successful, the court application would result in a substantial rebate.

11. RELATED PARTY TRANSACTIONS AND BALANCES

The Company's indirect shareholder, ESSAR Steel Holdings Ltd. ("Essar"), 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.

The Company had sales to related parties of \$0.2 for the period from October 1, 2010 to December 31, 2010 and \$17.3 million for the period April 1, 2010 to December 31, 2010 (period from October 1, 2009 to December 31, 2009 - nil million and period from April 1, 2009 to December 31, 2009 - \$26.2 million). The balance receivable from related parties included in accounts receivable as at December 31, 2010 is \$0.2 (March 31, 2010 - \$1.4 million).

The Company incurred amounts for services provided by related parties of nil million for the period from October 1, 2010 to December 31, 2010 and \$1.2 million for the period April 1, 2010 to December 31, 2010 (period from October 1, 2009 to December 31, 2009 - \$0.5 million and period from April 1, 2009 to December 31, 2009 - \$1.3 million). The balance payable to related parties included in accounts payable and accrued liabilities as at December 31, 2010 is \$0.7 million (March 31, 2010 - \$1.2 million).

The Company entered into 3 year agreements with a related party for the purchase of coal. Under these agreements, the Company incurred amounts for purchases of \$13.2 million for the period from October 1, 2010 to December 31, 2010 and \$31.9 million for the period from April 1, 2010 to December 31, 2010. There were no purchases in the corresponding periods in 2009. The balance

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL
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11. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

payable to related parties included in accounts payable and accrued liabilities as at December 31, 2010 is \$5.3 million (March 31, 2010 - nil).

In December 2010, the Company entered into an agreement with a related party for the purchase of iron ore. The agreement is for a minimum annual purchase of 4.1 million tons, based on market prices, for a period of 10 years, commencing in 2017.

The Company incurred expenses for consulting services to a company owned by a Director of \$0.2 million for the period October 1, 2010 to December 31, 2010 and \$0.8 million for the period April 1, 2010 to December 31, 2010 (October 1, 2009 to December 31, 2009 - \$0.3 million and April 1, 2009 to December 31, 2009 - \$1.3 million). There are no balances payable at December 31, 2010, and March 31, 2010.

The Company loaned U.S. \$11.0 million to a company under common control bearing interest at 3.29% per annum. The balance as at December 31, 2010 is \$11.2 million (U.S. \$11.3 million) (March 31, 2010 – nil) and is due on demand.

Until November 17, 2009, the assets and liabilities of Algoma Energy L.P. (“AELP”) were shown as held for sale in the interim consolidated balance sheet and the 49.9% interest held by an affiliate was shown as non-controlling interest. On November 17, 2009, the same affiliate indirectly purchased the remaining 50.1% interest held by the Company in AELP for consideration of \$136.0 million.

Concurrent with the sale of the Company’s interest in AELP, the Company has entered into 20-year agreements with a related party under common control as follows:

- i] Energy Supply Agreement to purchase electricity at the Hourly Ontario Energy Price under which the Company purchased \$4.1 million for the period October 1, 2010 to December 31, 2010 and \$13.8 million for the period April 1, 2010 to December 31, 2010 (October 1, 2009 to December 31, 2009 - \$2.1 million and April 1, 2009 to December 31, 2009 – \$2.1 million) as well as provide gas and receive steam, which are transacted at nil value between the related parties;
- ii] A Shared Services Agreement to provide employees and other services which are transacted at the exchange amount. The Company received revenue of \$0.6 million during the period October 1, 2010 to December 31, 2010 and \$1.7 million during the period April 1, 2010 to December 31, 2010 (October 1, 2009 to December 31, 2009 - \$0.3 million and April 1, 2009 to December 31, 2009 – \$0.3 million).
- iii] A Lease Agreement for the land on which the facility is built is for a nominal amount annually.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[Expressed in millions of Canadian dollars, except as noted]

December 31, 2010

11. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

The balance receivable from related parties as at December 31, 2010 is nil (March 31, 2010 - \$0.5 million), which is included in accounts receivable.

12. #7 BLAST FURNACE INSURANCE CLAIM

On September 24, 2009, the Company's Blast Furnace #7 suffered damage as a result of a failure in the bustle main. On October 14, 2009, Blast Furnace #7 was restarted and resumed normal operation on October 21, 2009.

The Company has insurance coverage for property damage and business interruption losses. Business interruption provides coverage for loss of gross profit resulting from the interruption of business operations. A claim was filed with the insurance provider related to expenses incurred to repair the blast furnace and the loss due to business interruption.

The Company's insurance provider finalized the claim and issued final settlement in September 2010. The Company received \$18.6 million in the nine months ended December 2010 and \$30.0 million during the year ended March 31, 2010 from the insurers as payments towards the final settlement amount, which was recorded in cost of sales. There are no amounts outstanding at December 31, 2010.

13. PRIOR YEAR COMPARATIVES

Certain comparative amounts have been reclassified to conform to the current period financial statement presentation.

14. SUBSEQUENT EVENTS

On January 21, 2011, a cooling water leak, compounded by extreme weather conditions, resulted in an operating failure and unplanned outage of the No. 7 blast furnace. The outage is expected to suspend production for approximately 20 days. Repair costs are not expected to be significant. The Company has insurance coverage for property damage and business interruption losses and is in discussion with the insurance providers.