

Interim Consolidated Financial Statements
ESSAR STEEL ALGOMA INC.
(Unaudited)
For the period ended September 30, 2010

ESSAR Steel Algoma Inc.
Interim Consolidated Statements of Income (Loss)

(Unaudited)

Expressed in millions of Canadian dollars

	Three months ended September 30 2010	Six months ended September 30 2010	Three months ended September 30 2009	Six months ended September 30 2009
Sales	\$ 469.9	\$ 945.6	\$ 388.3	\$ 636.6
Operating expenses				
Cost of sales excluding amortization	393.6	783.6	357.2	622.1
Amortization	44.7	90.9	51.1	99.3
	<u>438.3</u>	<u>874.5</u>	<u>408.3</u>	<u>721.4</u>
Administrative and selling	15.9	30.0	11.4	24.0
Amortization of intangible assets and non-production assets	5.8	11.6	6.1	12.6
	<u>460.0</u>	<u>916.1</u>	<u>425.8</u>	<u>758.0</u>
Income (loss) from operations	<u>9.9</u>	<u>29.5</u>	<u>(37.5)</u>	<u>(121.4)</u>
Financial expense (income)				
Interest on long-term liabilities	19.9	39.3	22.1	36.5
Interest on short-term liabilities, net	1.1	3.0	1.2	(0.5)
Foreign exchange loss (gain)	29.1	(8.5)	71.9	143.9
Investment (income) loss	(0.1)	(0.2)	0.7	0.4
	<u>50.0</u>	<u>33.6</u>	<u>95.9</u>	<u>180.3</u>
Loss before income taxes	(40.1)	(4.1)	(133.4)	(301.7)
Income taxes (note 9)				
Current expense (recovery)	4.5	12.5	(8.7)	(33.5)
Future recovery	(5.0)	(16.7)	(3.9)	(3.9)
	<u>(0.5)</u>	<u>(4.2)</u>	<u>(12.6)</u>	<u>(37.4)</u>
Net (loss) income for the periods	<u>\$ (39.6)</u>	<u>\$ 0.1</u>	<u>\$ (120.8)</u>	<u>\$ (264.3)</u>
Attributable to:				
Equity owners	(39.6)	0.1	(122.8)	(265.8)
Non-controlling interests	-	-	2.0	1.5
	<u>\$ (39.6)</u>	<u>\$ 0.1</u>	<u>\$ (120.8)</u>	<u>\$ (264.3)</u>
Interim Consolidated Statements of Comprehensive Income (Loss) and Retained Earnings (Deficit)				
Net (loss) income for the periods	\$ (39.6)	\$ 0.1	\$ (120.8)	\$ (264.3)
Unrealized (loss) gain on foreign exchange translation	(14.8)	5.1	(60.7)	(136.9)
Comprehensive (loss) income for the periods	<u>\$ (54.4)</u>	<u>\$ 5.2</u>	<u>\$ (181.5)</u>	<u>\$ (401.2)</u>
Attributable to:				
Equity owners	(54.4)	5.2	(183.5)	(402.7)
Non-controlling interests	-	-	2.0	1.5
	<u>\$ (54.4)</u>	<u>\$ 5.2</u>	<u>\$ (181.5)</u>	<u>\$ (401.2)</u>
(Deficit) retained earnings				
Balance, beginning of periods	\$ (153.3)	\$ (193.0)	\$ 62.9	\$ 205.9
Net (loss) income for the periods	(39.6)	0.1	(122.8)	(265.8)
Balance, end of periods	<u>\$ (192.9)</u>	<u>\$ (192.9)</u>	<u>\$ (59.9)</u>	<u>\$ (59.9)</u>

See accompanying notes to the consolidated financial statements

ESSAR Steel Algoma Inc.
Interim Consolidated Balance Sheets

(Unaudited)

Expressed in millions of Canadian dollars

	<u>September 30</u>	<u>March 31</u>
	<u>2010</u>	<u>2010</u>
Assets		
Current		
Cash and cash equivalents	\$ 16.0	\$ 40.2
Accounts receivable (note 11)	212.1	203.5
Income taxes receivable (note 9)	-	21.4
Loan receivable from related party (note 11)	11.9	-
Inventories (note 3)	323.3	289.3
Prepaid expenses	9.9	7.4
Future income tax assets (note 9)	1.9	1.5
Total current assets	<u>575.1</u>	<u>563.3</u>
Property, plant and equipment, net	1,525.4	1,572.8
Intangible assets, net	92.1	96.5
Other assets (note 5)	2.8	2.6
	<u>\$ 2,195.4</u>	<u>\$ 2,235.2</u>
Liabilities and shareholder's equity		
Current		
Bank indebtedness (note 4)	\$ 40.0	\$ 92.2
Accounts payable and accrued liabilities (note 11)	197.0	194.1
Income taxes payable (note 9)	1.0	0.3
Accrued pension liability and post-employment benefit obligation (note 6)	72.9	71.0
Current portion of capital leases and other long-term liabilities	1.6	2.2
Future income tax liabilities (note 9)	3.5	3.5
Total current liabilities	<u>316.0</u>	<u>363.3</u>
Long-term debt (note 5)	787.5	776.6
Accrued pension liability (note 6)	84.8	82.7
Accrued post-employment benefit obligation (note 6)	411.0	405.0
Other long-term liabilities	8.8	9.2
Future income tax liabilities (note 9)	192.2	208.5
	<u>1,484.3</u>	<u>1,482.0</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)	39.4	34.3
Deficit	(192.9)	(193.0)
	<u>395.1</u>	<u>389.9</u>
Total liabilities and shareholder's equity	<u>\$ 2,195.4</u>	<u>\$ 2,235.2</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 September 30 2010	Six months ended September 30 2010	Three months ended September 30 2009	Six months ended September 30 2009
Operating activities				
Net (loss) income for the periods	\$ (39.6)	\$ 0.1	\$ (120.8)	\$ (264.3)
Adjustments and items not affecting cash:				
Amortization	50.5	102.5	57.2	111.9
Future income tax (recovery) expense	(5.0)	(16.7)	(0.9)	0.5
Pension expense in excess of current funding	2.8	2.1	0.8	0.4
Unrealized foreign exchange loss (gain) on accrued pension liability	4.5	(1.9)	11.8	22.9
Post-employment benefit expense in excess of payments	4.5	7.9	1.2	4.5
Unrealized foreign exchange loss (gain) on accrued post-employment benefit obligation	14.4	(5.6)	36.0	70.0
Change in the fair value of embedded derivatives	(0.9)	(0.9)	-	-
Loss on disposal of property, plant and equipment	0.6	1.3	0.1	0.7
Unrealized foreign exchange loss (gain) on future income taxes	6.6	(2.9)	20.2	40.6
Other	0.9	1.3	(4.6)	(5.6)
	<u>39.3</u>	<u>87.2</u>	<u>1.0</u>	<u>(18.4)</u>
Changes in non-cash operating working capital	<u>(25.8)</u>	<u>(17.7)</u>	<u>(92.0)</u>	<u>(82.0)</u>
	<u>13.5</u>	<u>69.5</u>	<u>(91.0)</u>	<u>(100.4)</u>
Investing activities				
Acquisition of property, plant and equipment	(13.4)	(28.0)	(21.3)	(51.7)
Restricted cash	-	-	2.1	1.9
Loan/receivable from related party (note 11)	(0.5)	(11.6)	(3.4)	(3.5)
	<u>(13.9)</u>	<u>(39.6)</u>	<u>(22.6)</u>	<u>(53.3)</u>
Financing activities				
Bank indebtedness, net	(27.8)	(54.0)	120.7	108.9
Other	(0.8)	(1.2)	(0.1)	-
	<u>(28.6)</u>	<u>(55.2)</u>	<u>120.6</u>	<u>108.9</u>
Effect of exchange rate changes on cash and cash equivalents	(1.4)	1.1	(0.2)	(5.0)
Cash and cash equivalents				
Change during periods	(30.4)	(24.2)	6.8	(49.8)
Balance, beginning of periods	46.4	40.2	4.3	60.9
Balance, end of periods	<u>\$ 16.0</u>	<u>\$ 16.0</u>	<u>\$ 11.1</u>	<u>\$ 11.1</u>
Changes in non-cash operating working capital				
Accounts receivable	(32.7)	(5.6)	\$ (83.5)	\$ (38.3)
Income taxes receivable/payable	15.0	19.6	(12.7)	(47.6)
Inventories (note 3)	(41.3)	(32.2)	(37.2)	(49.1)
Prepaid expenses	(4.7)	(2.7)	(14.7)	28.6
Accounts payable and accrued liabilities	37.9	3.2	56.1	24.4
	<u>\$ (25.8)</u>	<u>\$ (17.7)</u>	<u>\$ (92.0)</u>	<u>\$ (82.0)</u>
Supplemental cash flow information				
Income taxes (refunded) paid	\$ (10.7)	\$ (10.3)	\$ 2.0	\$ 2.0
Interest paid	<u>\$ 20.2</u>	<u>\$ 41.5</u>	<u>\$ 5.3</u>	<u>\$ 28.4</u>

See accompanying notes to the consolidated financial statements

Interim Consolidated Financial Statements

ESSAR Steel Algoma Inc.

(Unaudited)

September 30, 2010

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

(Unaudited)

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

September 30, 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. \$1.0290 per U.S. \$1.00 for September 30, 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]

September 30, 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 Statements of Income (Loss) and Comprehensive Income (Loss) and Retained Earnings (Deficit).

3. INVENTORIES

Inventory write-downs during the period from July 1, 2010 to September 30, 2010 amounting to \$0.8 million and April 1, 2010 to September 30, 2010 of \$1.4 million (period from July 1, 2009 to September 30, 2009 - \$2.2 million and April 1, 2009 to September 30, 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.

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 September 30, 2010, the Company is required to maintain a minimum excess availability equal to U.S. \$35 million.

At September 30, 2010, there was \$40.0 million (March 31, 2010 - \$92.2 million) outstanding under the Revolving Facility and \$220.5 million (March 31, 2010 - \$163.9 million) of unused availability after taking into account \$21.3 million of outstanding letters of credit. In addition, the Company had \$16.0 million of unrestricted cash at September 30, 2010 (March 31, 2010 - \$40.2 million).

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

4. BANKING FACILITIES *(continued)*

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 September 30, 2010.

5. LONG-TERM DEBT

	September 30, 2010	March 31, 2010
	\$	\$
9.375% Senior Secured Notes denominated in U.S. dollars, due March 15, 2015	\$ 411.6	\$ 406.2
9 7/8% Senior Notes denominated in U.S. dollars, due June 15, 2015	395.8	390.8
	807.4	797.0
Less unamortized financing costs, premiums, and/or discounts	19.9	20.4
	\$ 787.5	\$ 776.6

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	411.6
Thereafter	395.8
	807.4

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,

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

5. LONG-TERM DEBT *(continued)*

and have estimated fair values of \$1.0 million and nil respectively at September 30, 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 \$19.9 million at September 30, 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 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 September 30, 2010.

6. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Pension expense and funding for the Company for the period from July 1, 2010 to September 30, 2010 was \$15.2 million and \$12.4 million, respectively and April 1, 2010 to September 30, 2010 was \$28.5 million and \$26.4 million, respectively (period from July 1, 2009 to September 30, 2009 - \$13.4 million and \$12.6 million, respectively and period from April 1, 2009 to September 30, 2009 - \$25.9 million and \$25.5 million, respectively).

Post-employment benefits expense and funding for the Company for the period from July 1, 2010 to September 30, 2010 was \$8.0 million and \$3.5 million, respectively and April 1, 2010 to September 30, 2010 was \$15.1 million and \$7.2 million, respectively (period from July 1, 2009 to September 30, 2009 - \$5.4 million and \$4.2 million, respectively and period from April 1, 2009 to September 30, 2009 - \$12.7 million and \$8.2 million, respectively).

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	September 30, 2010 \$	March 31, 2010 \$
Balance, beginning of period	34.3	193.7
Other comprehensive income for the period		
Unrealized gain (loss) on foreign exchange translation	5.1	(159.4)
Balance, end of period	39.4	34.3

ESSAR Steel Algoma Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 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 September 30, 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:

	July 1, 2010 to September 30, 2010 \$	April 1, 2010 to September 30, 2010 \$	July 1, 2009 to September 30, 2009 \$	April 1, 2009 to September 30, 2009 \$
Recovery of income taxes at the statutory manufacturing and processing rate of 28.4% (September 30, 2009 - 30.8%)	(11.3)	(1.2)	(41.7)	(93.4)
Increase (decrease) in income taxes resulting from:				
Impact of non-deductible (taxable) foreign exchange loss (gain)	11.2	(3.4)	29.9	58.2
Other	(0.4)	0.4	(0.8)	(2.2)
	(0.5)	(4.2)	(12.6)	(37.4)

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

9. INCOME TAXES *(continued)*

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 Canada Revenue Agency ("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 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 are reset annually under a pricing formula that is based on certain related benchmark pricing factors. The calendar year 2010 price has not been finalized as the benchmark pricing factors have not been published. The supplier has however issued a letter on May 21, 2010 estimating the price at an increase of 130% which accumulates in a total claim of US \$175.1 million up to September 30, 2010, which the company disagrees with. The company has filed for arbitration with respect to this dispute and has agreed to an interim price with Cliffs from October 1, 2010 through to the final decision on arbitration. Neither the possible outcome of the arbitration with Cleveland Cliffs, nor the amount of any possible settlement, can be reasonably estimated at this time. Consequently, no provision in respect of such matters has been made in the financial statements.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

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 nil for the period from July 1, 2010 to September 30, 2010 and \$17.1 million for the period April 1, 2010 to September 30, 2010 (period from July 1, 2009 to September 30, 2009 - \$25.7 million and period from April 1, 2009 to September 30, 2009 - \$28.9 million). The balance receivable from related parties included in accounts receivable as at September 30, 2010 is nil (March 31, 2010 - \$1.4 million).

The Company incurred amounts for services provided by related parties of \$0.6 million for the period from July 1, 2010 to September 30, 2010 and \$1.1 million for the period April 1, 2010 to September 30, 2010 (period from July 1, 2009 to September 30, 2009 - \$0.1 million and period from April 1, 2009 to September 30, 2009 - \$0.8 million). The balance payable to related parties included in accounts payable and accrued liabilities as at September 30, 2010 is \$0.6 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 \$15.3 million for the period from July 1, 2010 to September 30, 2010 and \$18.6 million for the period from April 1, 2010 to September 30, 2010. There were no purchases in the corresponding periods in 2009. The balance payable to related parties included in accounts payable and accrued liabilities as at September 30, 2010 is \$2.1 million (March 31, 2010 - nil).

The Company incurred expenses for consulting services to a company owned by a Director of \$0.4 million for the period July 1, 2010 to September 30, 2010 and \$0.6 million for the period April 1, 2010 to September 30, 2010 (July 1, 2009 to September 30, 2009 - \$0.1 million and April 1, 2009 to September 30, 2009 - \$1.0 million). There are no balances payable at September 30, 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 September 30, 2010 is \$11.9 million (U.S. \$11.2 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.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

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

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 \$5.5 million for the period July 1, 2010 to September 30, 2010 and \$9.7 million for the period April 1, 2010 to September 30, 2010 (July 1, 2009 to September 30, 2009 and April 1, 2009 to September 30, 2009 – nil) 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 July 1, 2010 to September 30, 2010 and \$1.2 million during the period April 1, 2010 to September 30, 2010 (July 1, 2009 to September 30, 2009 and April 1, 2009 to September 30, 2009 – nil).

iii] A Lease Agreement for the land on which the facility is built is for a nominal amount annually.

The balance receivable from related parties as at September 30, 2010 is \$0.7 million (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 in September 2010.

The Company received \$8.9 million in the three months ended September 30, 2010, \$18.6 million in the six months ended September 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 September 30, 2010.

ESSAR Steel Algoma Inc.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

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

September 30, 2010

**13. COMPARATIVE INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's interim consolidated financial statements.

14. SUBSEQUENT EVENTS

In the second quarter of fiscal 2010, the 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. Subsequent to September 30, 2010, the CRA issued a notice of reassessment which accepted the objection filed by the Company, which will result in the refund of amounts paid for the reassessments including refund interest.