

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. based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers the periods from July 1, 2010 to September 30, 2010 and April 1, 2010 to September 30, 2010. The financial results reported in the consolidated financial statements reflect the financial condition and results of operations for the periods July 1, 2010 to September 30, 2010 and April 1, 2010 to September 30, 2010, compared with the prior periods of July 1, 2009 to September 30, 2009 and April 1, 2009 to September 30, 2009.

The Company's year-end is March 31, 2011. The Company's functional currency is the United States dollar ("U.S. dollar") and its reporting currency is the Canadian dollar. Unless otherwise stated, the figures included in this MD&A are stated in Canadian dollars.

This MD&A is dated as of November 10, 2010 and should be read in conjunction with the September 30, 2010 unaudited Interim Consolidated Financial Statements and accompanying Notes. This discussion of the Company's business may include forward-looking information with respect to the Company, including its operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as "may," "will," "expect" or similar variations generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties and should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved. 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, and North American and global economic performance and political developments. Steel shipments and prices could be affected by import levels and government actions or lack of actions with regard to imports.

This document has been reviewed by the Audit Committee and Board of Directors of Essar Steel Algoma Inc. and contains information that is current as of November 10, 2010. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The unaudited Consolidated Financial Statements for the period ended September 30, 2010 are available on the Essar Steel Algoma Inc. website; www.essarsteelalgoma.com.

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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 sheet and plate products that are sold primarily in Canada and the United States. The Company had a subsidiary, Algoma Energy L.P. (“AELP”), which generated and sold electricity from commencement of operations on June 13, 2009 until November 17, 2009, at which time the company’s remaining interest was sold to a related company under common control.

The Company’s profitability is correlated with the level of steel prices which is one of the major factors causing variation in operating results between periods. Raw material and energy costs are also significant factors. Industry pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America.

Overall results

For the second quarter ended September 30, 2010, overall results improved compared to the second quarter ended September 30, 2009 due to higher shipments, higher selling prices, offset by higher cost of sales per ton. The factors for changes in the periods noted are discussed subsequently.

The Company is currently engaged in an arbitration proceeding with Cleveland Cliffs pursuant to which the arbitration panel will, among other things, determine a pricing formula that, when calculable, will determine a price of iron ore for the 2010 calendar year. 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. The price of iron ore established by the arbitrated pricing formula when calculable will have an adverse effect on the Company’s cost of sales, EBITDA, income (loss) from operations, net income (loss) and liquidity. See “Cleveland Cliffs Arbitration”.

Use of Non-GAAP Financial Measures

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

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

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 GAAP. 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 interest expense, 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 consider 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 offering memorandum, 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 GAAP results using EBITDA only as a supplement.

Functional Currency

The Company's functional currency is the U.S. dollar which reflects the Company's operational exposure to the U.S. dollar. The Company uses the Canadian dollar as its reporting currency. In accordance with Canadian GAAP, 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 second quarter of fiscal 2011 are provided below.

Quarter	Average Rate	Period End Rate
April 1 – June 30, 2010	1.0276	1.0646
July 1 – September 30, 2010	1.0391	1.0290

Sales

Sales for the quarter ended September 30, 2010 were \$469.9 million as compared to \$388.3 million for the same period 2009, which is an increase of 21.0%. For the six-month period ended September 30, 2010, sales were \$945.6 million as compared to \$636.6 million over the same period of the previous year which is an increase of 48.5%. The higher sales for the second quarter of fiscal 2011 were a result of higher selling prices offset by decreased shipments. Shipments were 617,911 tons for the quarter ended September 30, 2010, a 5.8% decrease from the same period of the prior year. For the six-month period ended September 30, 2010, shipments were 1,230,825 tons, a 16.7% increase over the same period of the prior year. Besides other factors, improved economic conditions have also helped in increased shipments for the six month period ended September 30, 2010 compared to the same period of the prior year.

Average net sales realization on steel sales (excluding freight) per ton shipped for the second quarter of fiscal 2011 was \$686 compared to \$511 per ton for the second quarter of 2010, reflecting higher steel selling prices worldwide and improvement in mix. For the six-month period ended September 30, 2010, average net sales realization was \$695 per ton compared to \$528 for the same period of the prior year.

Non-steel sales were \$15.5 million for the quarter ended September 30, 2010 (2009 – \$19.9 million) and \$25.7 million for the six-month period April 1, 2010 to September 30, 2010 (2009 - \$27.3 million). Non-steel sales include sales of various by-products generated in the manufacturing process. For the second quarter of 2010, electricity sales of \$9.0 million of AELP which commenced operations on June 13, 2009 were also included.

Cost of Sales

Cost of sales excluding amortization for the quarter ended September 30, 2010 was \$393.6 million (2009 - \$357.2 million) and cost of sales excluding amortization in the six-month period ended September 30, 2010 was \$783.6 million (2009 - \$622.1 million). The cost of steel products sold (excluding amortization, profit-sharing, freight and exceptional items) during the quarter ended September 30, 2010 was \$347.4 million representing a 11.7% increase from the same period of the prior year. For the period April 1, 2010 to September 30, 2010 the cost of steel products sold was \$693.2 million representing a 26.2% increase from the same period of the prior year. On a percentage of total sales basis, cost of steel products sold was 73.9% for the quarter ended September 30, 2010 (2009 – 80.1%). For the six-month period ended September 30, 2010 cost of steel products sold on a percentage of total sales basis was 73.3% (2009 – 86.2%)

On a per ton basis, cost of steel products sold was \$562 per ton for the quarter ended September 30, 2010 (2009 - \$474). For the six-month period ended September 30, 2010, cost of steel sales was \$563 per ton (2009 - \$520)

There are a few key factors impacting cost of steel products sold in the second quarter of fiscal 2011 compared to the second quarter of 2010. Costs that are denominated in Canadian dollars are impacted by fluctuations in U.S. to Canadian dollar exchange rates. The U.S. dollar has weakened relative to the Canadian dollar by approximately 5% compared to the second quarter of 2010 and thus certain costs have increased accordingly. There has also been a significant increase in the purchase cost of certain inputs, most notably coal, natural gas, scrap, ore and alloy materials.

Profit sharing expense, calculated in accordance with the profit sharing agreement, resulted in \$nil profit sharing expense for the quarter ended September 30, 2010 (2009 – nil).

Cost of non-steel products was \$15.5 million for the quarter ended September 30, 2010 (2009 - \$13.3 million) and \$25.7 million for the six-month period ended September 30, 2010 (2009 - \$20.6 million).

The price of iron ore established by the arbitrated pricing formula when calculable will have an adverse effect on the Company’s cost of sales. See “Cleveland Cliffs Arbitration”.

Administrative and Selling Expenses

Administrative and selling expenses for the quarter ended September 30, 2010 were \$15.9 million (2010 - \$11.4 million) and in the six-month period ended September 30, 2010 were \$30.0 million (six-month period ended September 30, 2009 - \$24.0 million)

Amortization

(in millions of dollars)	July 1 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Amortization of property, plant and equipment	\$ 44.7	\$ 51.1	\$ 90.9	\$ 99.3
Amortization of identifiable intangible and non-production assets	5.8	6.1	11.6	12.6
Total	\$ 50.5	\$ 57.2	\$ 102.5	\$ 111.9

Income (Loss) from Operations

Income from operations for the quarter ended September 30, 2010 was \$9.9 million compared to a loss of \$(37.5) million for the quarter ended September 30, 2009. For the six-month period ended September 30, 2010, income from operations was \$29.5 million compared to a loss of \$(121.4) million for the six-month period ended September 30, 2009. For the quarter ended September 30, 2010 the increase in income is primarily a result of improved selling prices offset by decreased shipments and increased cost of sales per ton.

Income (loss) from operations will be adversely affected by the price of iron ore established by the arbitrated pricing formula when calculable in connection with the Company’s arbitration against Cleveland Cliffs. See “Cleveland Cliffs Arbitration”.

Financial Expense (Income)

Interest on long-term liabilities for the quarter ended September 30, 2010 was \$19.9 million (2009 - \$22.1 million) and for the six-month period ended September 30, 2010 was \$39.3 million (2009 - \$36.5 million). The interest expense for the six-month period ended September 30, 2010 was higher compared to the same period in the prior year as a result of higher interest rates on new debt issued at 9.375% compared to the term debt, which was partially offset by lower average exchange rates for the quarter.

Interest on short-term liabilities for the quarter ended September 30, 2010 was \$1.1 million (2009 - \$1.2 million) and \$3.0 million for the six-month period ended September 30, 2010 (2009 - \$(0.5) million).

Investment (income) loss for the quarter ended September 30, 2010 was \$(0.1) million (2009 - \$0.7 million) and \$(0.2) million for the six-month period ended September 30, 2010 (2009 - \$0.4 million).

The unrealized foreign exchange loss for the quarter ended September 30, 2010 was \$29.1 million (2009 - \$71.9 million). For the six-month period ended September 30, 2010 the (gain) loss was \$(8.5) million (2009 - \$143.9 million). These unrealized gains and losses reflect the effect of U.S. 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 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Pension expense	\$ 15.2	\$ 13.4	\$ 28.5	\$ 25.9
Post-employment benefit expense	8.0	5.4	15.1	12.7
Total	\$ 23.2	\$ 18.8	\$ 43.6	\$ 38.6

(Recovery of) Provision for Income Taxes

The following table provides a reconciliation of the statutory tax amounts and rate to the actual (recovery) provision:

(in millions of dollars)	July 1 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Tax recovery at the statutory manufacturing and processing rate of 28.4% (2009 - 30.8%)	\$ (11.3)	\$ (41.7)	\$ (1.2)	\$ (93.4)
Add (deduct):				
Impact of non-deductible (taxable) portion of exchange loss (gain)	11.2	29.9	(3.4)	58.2
Other	(0.4)	(0.8)	0.4	(2.2)
Total	\$ (0.5)	\$ (12.6)	\$ (4.2)	\$ (37.4)

Loss carry forwards

The Company's income tax loss carry forwards were reduced by approximately \$179.4 million under the 2002 financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of federal and provincial non-capital loss carry forwards, but fully utilized these losses by the third quarter of 2005.

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 totalled \$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.

The Company's U.S. subsidiary, Cannelton Iron Ore Company, has non-capital losses available on a calendar year basis, which are limited to use under Internal Revenue Code 382, of approximately U.S. \$42.6 million, of which U.S. \$4.3 million expire in 2010, U.S. \$1.9 million in 2021 and U.S. \$36.4 million in 2022.

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.

Non-controlling Interest

The non-controlling interest represented the 49.9% share of AELP's profit for the period to November 17, 2009. On November 17, 2009 the company sold its 50.1% interest in AELP to a related company for a total consideration of \$136.0 million.

Net Income (Loss)

Net income (loss) for the quarter ended September 30, 2010 was \$(39.6) million (2009 – \$(120.8) million). For the six-month period ended September 30, 2010, net income was \$0.1 million (for the six-month period ended September 30, 2009 - \$(264.3) million). The decrease in net loss was mainly due to the factors discussed above.

Net income (loss) will be adversely affected by the price of iron ore established by the arbitrated pricing formula when calculable in connection with the Company's arbitration against Cleveland Cliffs. See "Cleveland Cliffs Arbitration".

EBITDA (i)

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

(in millions of dollars)	July 1 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Net income (loss)	(39.6)	(120.8)	\$ 0.1	\$ (264.3)
Amortization	50.5	57.2	102.5	111.9
Interest expense, net	21.0	23.3	42.3	35.6
Income taxes	(0.5)	(12.6)	(4.2)	(37.4)
Foreign exchange loss (gain)	29.1	71.9	(8.5)	143.9
Investment income	(0.1)	0.7	(0.2)	0.8
Exceptional items	(8.9)	7.5	(18.5)	10.0
EBITDA	51.5	27.2	\$113.5	\$0.5

(i) EBITDA is a non-GAAP measure and is defined on page 3 of this report.

EBITDA for the quarter ended September 30, 2010 was \$51.5 million (2009 – \$19.7 million) and in the six-month period ended September 30, 2010 was \$113.5 million (2009 - \$0.5 million). The improvement from the corresponding periods ended September 30, 2009 is mainly attributable to the factors discussed above.

Exceptional items for the quarter ended September 30, 2010 of \$(8.9) million, the quarter ended September 30, 2009 of \$7.5 million, and \$(18.5) million for the six-month period ended September 30, 2010 relate to payments received/deductible in regards to an insurance claim. For the six-month period ended September 30, 2009, the exceptional charges of \$10.0 million were the result of inventory write-downs.

EBITDA will be adversely affected by the price of iron ore established by the arbitrated pricing formula when calculable in connection with the Company's arbitration against Cleveland Cliffs. See "Cleveland Cliffs Arbitration".

Financial Resources and Liquidity

Summary of Cash Flows

(in millions of dollars)	July 1 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Operating activities:				
Cash flow (use) from operations before changes in working capital	\$ 39.3	1.0	\$ 87.2	\$ (18.4)
Changes in non-cash working capital	(25.8)	(92.0)	(17.7)	(82.0)
	13.5	(91.0)	\$ 69.5	\$ (100.4)
Investing activities:				
Acquisition of property, plant and equipment	(13.4)	(21.3)	\$ (28.0)	\$ (51.7)
Loan receivable from related party	(0.5)	(3.4)	(11.6)	(3.5)
Restricted Cash	-	2.1	-	1.9
	(13.9)	(22.6)	\$ (39.6)	\$ (53.3)
Financing activities:				
Bank indebtedness, net	(27.8)	120.7	\$ (54.0)	\$ 108.9
Other	(0.8)	(0.1)	(1.2)	-
	(28.6)	120.6)	\$ (55.2)	\$108.9
Effect of exchange rate changes on cash	(1.4)	(0.2)	1.1	(5.0)
Change in cash and cash equivalents during the period	(30.4)	6.8	\$ (24.2)	\$ (49.8)

Cash Flow From Operating Activities

Cash flow from operations for the quarter ended September 30, 2010, before changes in non-cash operating working capital, was \$39.3 million compared to a cash flow of \$1.0 million for the quarter ended September 30, 2009. Cash flow from operations before changes in non-cash operating working capital for the six-month period ended September 30, 2010 was \$87.2 million compared to \$(18.4) million for the six-month period ended September 30, 2009. The increase in cash flow from operating activities for the quarter ended September 30, 2010 results primarily from higher selling prices offset by lower shipments and increased costs as compared to the same period in 2009.

Changes in non-cash working capital for the quarter ended September 30, 2010 was a use of cash of \$25.8 million compared to a use of cash of \$92.0 million for the quarter ended September 30, 2009. For the six-month period ended September 30, 2010, changes in non-cash working capital was a use of cash of \$17.7 million compared to \$82.0 million for the six-month period ended September 30, 2009. The changes in non-cash working capital were comprised of the following:

(in millions of dollars)	July 1 to September 30, 2010	July 1 to September 30, 2009	April 1 to September 30, 2010	April 1 to September 30, 2009
Accounts receivable	(32.7)	\$ (83.5)	\$ (5.6)	\$ (38.3)
Income and other taxes receivable / payable	15.0	(12.7)	19.6	(47.6)
Inventories	(41.3)	(37.2)	(32.2)	(49.1)
Prepaid expenses	(4.7)	(14.7)	(2.7)	28.6
Accounts payable and accrued liabilities	37.9	56.1	3.2	24.4
Total	(25.8)	\$ (92.0)	\$ (17.7)	\$ (82.0)

The increase in accounts receivable was primarily due to monthly sales and collection variations for the second quarter of fiscal 2011. The decrease in income and other taxes receivable was primarily due to recovery of taxes. The increase in inventories was mainly due to seasonal increases in raw material inventories prior to winter.

Cash Flow From Investing Activities

Capital expenditures for the quarter ended September 30, 2010 totaled \$13.4 million, compared to \$21.3 million for the quarter ended September 30, 2009. Expenditures for the quarter ended September 30, 2010 included \$4.0 million on a blast furnace gas pipe line and \$1.6 million on #2 ladle metallurgy facility. Expenditures in the quarter ended September 30, 2009 included \$12.5 million on the cogeneration facility.

Capital expenditures for the six-month period ended September 30, 2010 totaled \$28.0 million, compared to \$51.7 million in the six-month period ended September 30, 2009.

Cash Flow from Financing Activities

Financing activities for the quarter ended September 30, 2010 included a decrease in bank indebtedness of \$27.8 million (2009 – increase in bank indebtedness of \$120.7 million).

Financing activities in the six-month period ended September 30, 2010 included a decrease in bank indebtedness of \$54.0 million. Financing activities for the six-month period ended September 30, 2009 included an increase in bank indebtedness of \$108.9 million.

Capital Resources - Financial Position and Liquidity

At September 30, 2010, the Company had \$220.5 million of unused availability under its Revolving Facility 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.

Borrowings under the Revolving Credit Facility are generally based on eligible accounts receivable and eligible inventories. In addition to satisfying the borrowing base requirements, in order to make borrowings under the Revolving Credit Facility, the Company is required to either meet a fixed charge coverage ratio test or maintain minimum excess availability of 10% of the Revolving Credit Facility commitment 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.

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.

For the next twelve months, the Company expects that our 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 believes that cash on hand, together with cash flows from

operations and borrowings under its Revolving Credit Facility will be adequate to meet our working capital, capital expenditure, debt service and other cash requirements for the next twelve months.

The price of iron ore established by the arbitrated pricing formula when calculable in connection with the Company's arbitration against Cleveland Cliffs, and the resulting quantum of the "top-up" payment to be paid by the Company to Cleveland Cliffs, will have an adverse effect on the Company's liquidity. See "Cleveland Cliffs Arbitration".

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.

Required pension funding for fiscal 2010 was approximately \$51.3 million. An actuarial valuation to determine funding requirements for the Active Plans is in process and once completed, will be effective August 1, 2010.

Contractual Obligations and Off Balance Sheet Arrangements

The following table presents, at September 30, 2010, our obligations and commitments to make future payments under contracts and contingent commitments. The following figures assume that the September 30, 2010 Canadian/U.S. 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)	\$ 40.0	40.0	-	-	-
Long-term debt	\$ 807.4	-	-	807.4	-
Operating leases	\$ 11.2	5.2	5.2	0.6	0.2
Purchase obligations	\$ 2,524.9	787.5	805.9	628.9	302.6
Other obligations	\$ 17.7	1.6	2.9	1.3	11.9
Total	\$ 3,401.2	834.3	814.0	1,438.2	314.7

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

Included in the purchase obligations is an agreement for the purchase of iron ore, which is disclosed in note 10 to the financial statements. 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 and is subject to a price reopening process in calendar years 2011 and 2014. 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.

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

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 11) to the financial statements.

Impact of New Accounting Pronouncements on Future Reporting Periods

The Canadian Accounting Standards Board and the Canadian Institute of Chartered Accountants often issues new accounting pronouncements which affect future reporting periods. The Company reviews these issuances on a regular basis. Current issuances are disclosed and discussed in note 2 to the financial statements.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the 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 of property, plant and equipment; measurement of inventories; the tax benefits related to scientific research and experimental development claims; valuation allowances for receivables and future income taxes; and assets and obligations related to employee future benefits, as disclosed in the notes to the financial statements. Actual results could differ from those estimates.

Cleveland Cliffs Arbitration

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.

For the 2010 calendar year, Cleveland Cliffs purported to increase the price of iron ore by more than 130% over the previous price in effect, on a basis the Company believes is improper. As a result, the Company commenced an arbitration proceeding challenging the purported price increase for the 2010 calendar year. Further, the Company sought and obtained an interim injunction requiring Cleveland Cliffs to continue to deliver iron ore to the Company at the last undisputed price agreed to by the parties, being the December, 2009 price for iron ore. Such price was paid by the Company from January 1, 2010 until October 1, 2010, when the parties reached an agreement regarding an interim price that will remain in effect until the outcome of the arbitration proceeding, which is scheduled to be heard on November 30 and December 1, 2010. The Company will be obliged to make a “true-up” payment to Cleveland Cliffs, representing the difference between (i) the price established through arbitration and (ii) the price paid year to date by the Company.

Depending upon the outcome of the arbitration proceeding, the resulting quantum of the true-up payment will have an adverse effect on the Company’s cost of sales, EBITDA, income (loss) from operations, net income (loss) and liquidity.

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 that accelerated during the second half of 2008 and first half of 2009 caused a sharp reduction in worldwide demand for steel which has had a material adverse effect on the steel industry and the Company.

The Company’s activities and results are affected by international, national and regional economic conditions. Starting in September 2008, a steep downturn in the global economy, 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.

Although economic conditions have improved, if global macroeconomic conditions deteriorate, the outlook of steel producers will worsen. In particular, a prolonged recession or depression in the United States and Europe, or continued slow 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. Further 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. Prolonged decline in steel consumption caused by the poor economic conditions in North America or 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.

The Company could implement a variety of measures in response to a market downturn and a further 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 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. Moreover, steel companies generally have significant fixed costs, which are difficult to reduce in times of reduced demand.

Excess capacity, resulting in part from expanded production in China and other developing economies in recent years, may hamper the steel industry's recovery and prolong the downward cycle.

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 in the context of the recent downturn that global production levels will fail to adjust fully to demand or that production increases will outstrip demand increases, resulting in an extended period of depressed prices and industry weakness.

The Company has made significant production cuts in response to the recent economic crisis, as did other steel producers. The Company also expects that steel sector consolidation of recent years should, as a general matter, help producers to maintain more consistent performance through the down cycle. In the context of a severe and/or protracted economic downturn, however, the chronic overcapacity that plagued the industry during the period from 1973 to 2000 may re-emerge.

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 U.S. markets in that year, though its exports then slowed in 2007. In the second half of 2008, capacity expansion in the Chinese mills slowed and capacity utilization rates declined, resulting in decreased exports. In the future, however, 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 2008, steel prices in global markets fell sharply beginning in the late summer of 2008 primarily as a result of collapsing demand and reduction in finished steel inventories, with demand remaining depressed through 2009 and the first half of 2010. Lower prices during this period adversely affected the results of steel producers generally. Further price or volume declines or protracted price or volume declines 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.

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

We compete with numerous foreign and domestic steel producers. Some of the Company's competitors have greater financial and capital resources than the Company does and they may invest heavily to achieve increased production efficiencies, increased capacity 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 labor, raw material and energy costs are higher than many foreign producers. Although freight costs for steel can often make it uneconomic for distant steel producers to compete with us, to the extent that they have lower cost of sales such as lower labor, raw material or energy costs or are government subsidized, they may be able to successfully compete in the U.S. and Canadian markets. Although the Company is continually striving to improve its operating costs, it may not be successful in achieving labor,

raw material and energy cost improvements or gaining operating efficiencies that may be necessary to remain competitive on a global scale.

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

There are 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. 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.

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 labor 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", a practice employed by certain foreign competitors that have sold steel into the United States or Canadian markets at prices below their costs or below prices prevailing in their own domestic markets. Such practices may result in injury to companies producing goods in Canada or the U.S. in the form of suppressed prices, lost sales, lower profits and reductions in production, employment levels and the ability to raise capital. Although in a number of cases Canadian trade laws have been successfully employed in the past, they may be inadequate to prevent future unfair import pricing practices which individually or collectively could materially adversely affect us. If current and future trade cases do not provide relief from such trade practices, relevant Canadian trade laws are weakened, world demand for steel decreases, or the U.S. or Canadian dollars strengthen against foreign currencies, an increase in the market share of imports into Canada may occur, which could have a material adverse effect on us. 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.

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

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, U.S. 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. The recent economic situation negatively impacted the Company's volume of shipments and selling prices. If the situation persists or deteriorates further, it will have an adverse impact on the business. In addition, many of the customers are also affected by such economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to us and will negatively impact the Company's financial results and cash flows. Although the Company has fixed-price customer contracts which typically account for about 10% of total shipments, the majority of the contracts do not exceed one year in duration and may be difficult to enforce if a customer does choose to breach the contract.

The Company experienced financial difficulties in 1990 after suffering a \$702 million loss in that year, in part resulting from a lengthy labor 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 Direct Strip Production Complex, 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 labor interruptions and difficulties.

We have approximately 3,349 full-time equivalent employees as of September 30, 2010, of which approximately 3,215, accounting for 96.0% of the Company's employees, are represented by two locals of the United Steelworkers of America ("USW") under two collective bargaining agreements. During the quarter the Company ratified labour agreements with Locals 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 labor disruption.

Our customers, or companies upon whom the Company is dependent for raw materials, transportation or other services, could also be affected by labor difficulties. Any such activities, disruptions or difficulties could result in a significant loss of production and sales and 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. 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.

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. As a result, the production was lower by approximately 220,000 tons.

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.

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. Due to the current economic situation, all previously planned capital expenditures are being reviewed and only essential expenditures will be completed. 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 39% of sales in fiscal 2010. 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 could be particularly adversely affected by supply interruptions or further corresponding increase in raw material costs. The Company's results of operations could be adversely affected by supply interruptions or further increases in the cost of materials (including an increase in the price of iron ore to be established through the Company's arbitration with Cleveland Cliffs and the amount of the top-up payment required to be made to Cleveland Cliffs in connection with such arbitration proceeding (see "Cleveland Cliffs Arbitration")). 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.

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 materially adversely affect the Company's results of operations and financial condition.

Increases in the value of the Canadian dollar relative to the U.S. dollar make Canadian steel products and Canadian customers less competitive in U.S. markets and also encourage imports from the U.S. The increase in the value of the Canadian dollar relative to the U.S. 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 a material 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 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.
2. The Company is required to install door and jamb cleaners on its #7 Coke Oven Battery by June 30, 2011, at an estimated cost 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 will require 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 2010 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.

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 (other than discussed in "Cleveland Cliffs Arbitration"), 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 a materially 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.

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

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 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.

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 shareholders 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 (in millions of CAD)

For the quarter ended	Sales	EBITDA (i)	Income (loss) from operations	Income (loss) before income taxes	Net income (loss)
Sept 30, 2010	\$469.9	\$51.5	\$9.9	\$(40.1)	\$(39.6)
June 30, 2010	475.7	61.9	19.6	36.0	39.7
YTD Sept 30, 2010	\$945.6	\$113.4	\$29.5	\$(4.1)	\$0.1
Mar 31, 2010	\$464.8	\$24.8	\$(30.4)	\$(82.0)	\$(68.4)
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)	(168.3)	(143.5)
YTD Mar 31, 2010	\$1,409.4	\$49.5	\$(218.4)	\$(487.3)	\$(396.0)
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
Mar 31, 2008	\$502.3	\$71.4	\$20.5	\$(27.3)	\$(25.3)
Dec 31, 2007	514.8	48.9	(4.9)	(21.1)	20.1
Sept 30, 2007	368.5	(37.2)	(77.7)	(47.7)	(20.9)
June 30, 2007	482.3	35.2	36.3	13.3	6.3
YTD Mar 31, 2008	\$1,867.9	\$118.3	\$(25.8)	\$(82.8)	\$(19.8)

(i) EBITDA is a non-GAAP measure and is defined on page 3 of this report. EBITDA excludes exceptional items.

Supplementary Data

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

For the quarter ended	Sheet	Plate	Slabs	Total
Sept 30, 2010	517	101	-	618
June 30, 2010	514	99	-	613
YTD Sept 30, 2010	1,031	200		1,231
Mar 31, 2010	596	102	-	698
Dec 31, 2009	413	58	-	471
Sept 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
Sept 30, 2008	569	165	7	741
June 30, 2008	633	167	-	800
YTD Mar 31, 2009	2,022	530	21	2,573
Mar 31, 2008	534	149	-	683
Dec 31, 2007	628	131	-	759
Sept 30, 2007	306	130	-	436
June 30, 2007	480	140	-	620
YTD Mar 31, 2008	1,948	550	-	2,498