

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") provides management's perspective on the financial condition and results of operations of Essar Steel Algoma Inc. (the "Company") based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers the three-month and twelve-month periods ended March 31, 2011. The financial results reported in the consolidated financial statements reflect the financial condition and results of operations for the periods January 1, 2011 to March 31, 2011 and April 1, 2010 to March 31, 2011, compared with prior periods of January 1, 2010 to March 31, 2010 and April 1, 2009 to March 31, 2010.

The Company's year-end is March 31, 2011. The Company's functional currency is the United States dollar ("U.S. dollar" and "U.S. \$") 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 June 8, 2011 and should be read in conjunction with the March 31, 2011 audited 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; and 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 the Company and contains information that is current as of June 8, 2011. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The audited consolidated financial statements for the period ended March 31, 2011 are available on the Company's website: www.essarsteelalgoma.com.

Contents	Page No.
Overview of the Business	3
Overall results.....	3
Use of Non-GAAP Financial Measures	3
Functional Currency	4
Sales.....	4
Cost of Sales	4
Administrative and Selling Expenses	5
Amortization.....	5
Income (Loss) from Operations.....	5
Financial Expense (Income)	6
Pension and Post Employment Benefits.....	6
(Recovery of) Provision for Income Taxes	7
Non-controlling Interest.....	7
Net Income (Loss)	8
EBITDA.....	8
Financial Resources and Liquidity	9
Capital Resources - Financial Position and Liquidity	10
Contractual Obligations and Off Balance Sheet Arrangements	11
Related Party Transactions	12
Financial Instruments.....	12
Transition from Canadian GAAP to IFRS.....	12
Critical Accounting Estimates	15
Risks and Uncertainties	15
Supplementary Data.....	23

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 North America. 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 sold its interest to a related company under common control.

The Company’s profitability is correlated to the level of steel prices. Changes in steel prices cause variation in operating results between periods. Industry pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America. Raw material and energy costs also have a significant impact on operating results.

Overall results

For the fourth quarter ended March 31, 2011, the results were greatly impacted when Blast Furnace #7 experienced significant water leakage that ultimately caused a chilling of the furnace. Sales volumes for the quarter ended March 31, 2011 were significantly lower when compared to the same period ended March 31, 2010. In spite of this, sales volumes were higher for the twelve month period ended March 31, 2011 as were average selling prices compared to the same period ended March 31, 2010. The factors for changes in the periods noted are discussed subsequently.

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, exceptional items and non-controlling interest. EBITDA is not a recognized measure for financial statement presentation under Canadian GAAP. 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 document, limiting its usefulness as a comparative measure.

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

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 relevant quarters of fiscal 2011 are provided below.

Quarter	Average Rate		Period End Rate	
	2011	2010	2011	2010
April 1 – June 30	1.0276	1.1671	1.0646	1.1631
July 1 – September 30	1.0391	1.0974	1.0290	1.0707
October 1 – December 31	1.0128	1.0563	0.9946	1.0510
January 1 – March 31	0.9860	1.0409	0.9696	1.0158

Sales

Sales for the fourth quarter of 2011 were \$386.1 million as compared to \$464.8 million for the corresponding period ended March 31, 2010, which is a decrease of 16.9%. For the twelve month period ended March 31, 2011, sales were \$1,768.3 million as compared to \$1,409.4 million over the same period of the previous year which is an increase of 25.5%. The decreased sales during the fourth quarter of 2011 were the result of lower shipments caused by lost production due to the chilling of Blast Furnace #7. On January 21, 2011 Blast Furnace #7 experienced significant water leakage and this ultimately led to the chilling of the furnace. Production of raw steel was halted for 23 days with production returning to normal after 33 days. Shipments were 526,668 tons for the fourth quarter of 2011, a 24.5% decrease from the fourth quarter of 2010. For the twelve month period ended March 31, 2011, shipments were 2,386,994 tons, a 7.3% increase over the same period of the prior year.

Average net sales realization on steel sales (excluding freight) per ton shipped for the fourth quarter of 2011 was \$664 compared to \$614 per ton for the fourth quarter of 2010, reflecting higher steel selling prices worldwide. For the twelve month period ended March 31, 2011, average net sales realization was \$667 per ton compared to \$561 for the same period of the prior year. Net steel sales realizations are also impacted by product mix changes as plate sales were 16.7% of total sales during the twelve month period ended March 31, 2011 as compared to 13.5% for the same period of the prior year.

Non-steel sales were \$9.4 million for the fourth quarter of 2011 (for the fourth quarter of 2010 – \$0.9 million) and \$48.3 million for the twelve month period ended March 31, 2011 (twelve month period ended March 31, 2010 - \$43.7 million). Non-steel sales include sales of various by-products generated in the manufacturing process as well as the electricity sales of AELP totaling \$14.5 million for the period June 13, 2009 until November 17, 2009.

Cost of Sales

Cost of sales excluding amortization for the fourth quarter of 2011 was \$398.6 million (for the fourth quarter of 2010 - \$425.8 million) and cost of sales excluding amortization in the twelve month period ended March 31, 2011 was \$1,755.4 million (twelve month period ended March 31, 2010 - \$1,362.8 million). The cost of steel products sold (excluding amortization, freight, by-products and exceptional items) during the fourth quarter of 2011 was \$330.2 million representing a 15.2% decrease from the same period last year. For the

Cost of Sales (continued)

twelve month period ended March 31, 2011 the cost of steel products sold was \$1,566.3 million representing a 35.1% increase from the same period last year. On a percentage of total sales basis, cost of steel products sold was 85.5% for the fourth quarter of 2011 (for the fourth quarter of 2010 – 83.8%). For the twelve month period ended March 31, 2011 cost of steel sales on a percentage of total sales basis was 88.6% (twelve month period ended March 31, 2010 – 82.3%).

On a per ton basis, cost of steel products sold was \$627 per ton for the fourth quarter of 2011 (for the fourth quarter of 2010 - \$554). For the twelve month period ended March 31, 2011, cost of steel product sold was \$656 per ton (for the twelve month period ended March 31, 2010 - \$520).

There are a two key factors impacting cost of steel products sold in the fourth quarter of 2011 compared to the fourth quarter of 2010. The increase in ore pellet pricing is the most significant cause of increased cost compared to the previous year. This raw material price increase was partially offset by cost reduction initiatives undertaken by management throughout the year.

The higher priced ore is the primary driver of the increase in cost of steel products sold in the twelve month period ended March 31, 2011 compared to the twelve month period ended March 31, 2010. There has also been a significant increase in the purchase cost of certain other inputs, most notably coal, scrap and alloy materials. Costs that are denominated in Canadian dollars are impacted by fluctuations in U.S. dollar to Canadian dollar exchange rates. The U.S. dollar has weakened relative to the Canadian dollar by approximately 7% compared to 2010 and thus certain costs have increased accordingly.

As per the collective agreements negotiated with both the 2251 and 2724 local chapters of The United Steelworkers dated August 1, 2010 profit sharing will be calculated on a fiscal year basis beginning with the period ending March 31, 2011. Profit sharing was calculated on a calendar year basis in previous periods. The operating losses in the fourth quarter of 2011 and the fiscal year ended March 31, 2011 results in \$nil profit sharing expense for both the fourth quarter of 2011 and the twelve month period ended March 31, 2011. Likewise, during the fourth quarter of 2010 and in the twelve month period ended March 31, 2010 there was no adjustment related to profit sharing expense.

Cost of non-steel products was \$9.4 million for the fourth quarter of 2011 (for the fourth quarter of 2010 - \$0.9 million) and \$48.3 million for the twelve month period ended March 31, 2011 (twelve month period ended March 31, 2010- \$33.9 million).

Administrative and Selling Expenses

Administrative and selling expenses for the fourth quarter of 2011 were \$15.1 million (2010 - \$14.1 million) and in the twelve-month period ended March 31, 2011 were \$64.2 million (twelve-month period ended March 31, 2010 - \$50.5 million).

Amortization

(in millions of dollars)	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Amortization of property, plant and equipment	\$45.2	\$49.5	\$178.4	\$ 190.3
Amortization of identifiable intangible and non-production assets	5.5	5.8	22.9	24.2
Total	\$50.7	\$55.3	\$201.3	\$ 214.5

Amortization expense in the fourth quarter was \$50.7 million (2010 - \$55.3 million) and in the period of April 1, 2010 to March 31, 2011 was \$201.3 million (2010 – \$214.5 million).

Income (Loss) from Operations

Loss from operations for the fourth quarter of 2011 was \$(78.4) million compared to a loss of \$(30.4) million for the fourth quarter of 2010. For the twelve-month period ended March 31, 2011, loss from operations was \$(252.6) million compared to a loss of \$(218.4) million for the twelve-month period ended March 31, 2010.

Financial Expense (Income)

Interest on long-term liabilities for the fourth quarter of 2011 was \$19.5 million (for the fourth quarter of 2010 – \$21.0 million) and for the twelve-month period ended March 31, 2011 was \$79.2 million (twelve-month period ended March 31, 2010 - \$77.9 million). The interest expense for the year ended March 31, 2011 was higher compared to the same period of 2010 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 year. Additionally, interest expense for the year ended March 31, 2010 includes the expensing of unamortized finance costs as a result of retiring the term debt.

Interest on short-term liabilities for the fourth quarter of 2011 was \$2.1 million (for the fourth quarter of 2010 – \$1.3 million) and \$6.4 million for the twelve month period ended March 31, 2011 (twelve month period ended March 31, 2010 - \$1.7 million).

Other (income) expense for the fourth quarter of 2011 was \$(0.1) million (for the fourth quarter of 2010 – \$0.5 million) and \$(1.7) million for the twelve month period ended March 31, 2011 (twelve month period ended March 31, 2010 – \$1.9 million).

The unrealized foreign exchange loss for the fourth quarter of 2011 was \$16.2 million (for the fourth quarter of 2010 – loss \$28.5 million). For the twelve month period ended March 31, 2011 the unrealized foreign exchange loss was \$36.7 million (twelve month period ended March 31, 2010 – loss \$187.1 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)	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Pension expense	\$ 13.7	\$ 13.7	\$ 56.3	\$ 53.2
Post-employment benefit expense	7.5	5.0	30.2	22.7
Total	\$ 21.2	\$ 18.7	\$ 86.5	\$ 75.9

(Recovery of) Provision for Income Taxes

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

(in millions of dollars)	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Tax provision at the statutory manufacturing and processing rate of 28.4% (2010 – 30.8%)	\$ (33.0)	\$ (25.1)	\$ (106.0)	\$ (150.7)
Add (deduct):				
Impact of non-deductible portion of exchange loss on \$US currency	6.1	10.5	12.1	75.7
Benefit of reduction in future income tax rates enacted in the period	-	-	-	(16.0)
Initiating future tax assets recognized using future tax rates lower than current statutory rate	2.4	-	6.9	-
Other	(0.4)	1.0	(0.3)	(0.3)
Total	\$ (24.9)	\$ (13.6)	\$ (87.3)	\$ (91.3)

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 and no provision had been made in the consolidated statement of income (loss) for the income taxes or interest associated with the reassessments. The Company paid the reassessments, which totaled \$2 million including \$0.5 million of interest, and had reflected this amount as a recoverable netted with income and other taxes payable in the consolidated balance sheet. In October 2010 the CRA issued notices of reassessment which accepted the objection filed by the Company and refunded the amounts previously paid in addition to refund interest.

The Company has non-capital losses available of \$232.4 million of which \$29.7 million expire in 2030 and \$202.7 million in 2031.

The Company’s subsidiary Cannelton Iron Ore Company (“Cannelton”) located in the United States of America (“U.S.”) has non-capital losses available on a calendar year basis, which are limited to use under Internal Revenue Code 382, of approximately U.S. \$38.3 million, of which U.S. \$1.9 million expire in 2021 and U.S. \$36.4 million in 2022. A full valuation allowance of \$12.9 million (2010 - \$14.7 million) has been recorded against its future income tax assets as Cannelton has not engaged in any business activity since the disposition of its joint venture in 2002.

For the fiscal years 2002-2010, the Company has filed, or intends to file, scientific research and experimental development (“SR&ED”) claims with the CRA totaling \$366.7 million. The potential tax benefit on these claims is 20% to 24% of the claims or \$74.6 million. To date, \$31.9 million of the potential tax benefit, the portion that management believes meets the threshold of “reasonable assurance” of realization, has been recognized. The determination of the amount of tax benefit to recognize requires judgment, and is subject to change based on the CRA’s audit of the claims which may result in adjustments to income. The CRA has assessed \$3.4 million of tax credits in respect of 2002 to which the Company has objected. In August and September 2010, the Company reached agreements with the CRA on \$19.6 million of tax credits for the years 2003-2006.

Non-controlling Interest

The non-controlling interest in the results for the 12 months ended March 31, 2010 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 loss for the fourth quarter was \$(91.1) million (for the fourth quarter 2010 – \$(68.3) million). Net loss for the twelve month period ended March 31, 2011 was \$(285.9) million (for the twelve month period ended March 31, 2010 – loss of \$(395.9) million). The increase in the 2011 fourth quarter net loss was mainly due to the factors discussed above. The reduction in net loss for the twelve month period ended March 31, 2011 was due to a significant reduction in the impact of foreign exchange on the 2011 results offset by the pressures on operating income as discussed above.

EBITDA (i)

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

(in millions of dollars)	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Net loss (ii)	\$ (91.1)	\$ (68.3)	\$ (285.9)	\$ (398.9)
Amortization	50.7	55.3	201.3	214.5
Interest expense, net	21.6	22.3	85.6	79.6
Income taxes	(24.9)	(13.6)	(87.3)	(91.3)
Foreign exchange loss	16.1	28.5	36.6	187.1
Change in the fair value of embedded derivatives	0.1	0.2	0.1	0.2
Investment income (loss)	(0.1)	0.5	(1.7)	1.9
Exceptional items	37.5	-	18.9	53.5
Non-controlling interest	-	-	-	3.0
EBITDA	\$ 9.9	\$ 24.9	\$(32.4)	\$ 49.6

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

(ii) The net loss for the year ended March 31, 2010 excludes net income attributable to non-controlling interests of \$3.0 million

EBITDA for the fourth quarter of 2011 was \$9.9 million (for the fourth quarter of 2010 – \$24.9 million) and in the twelve month period ended March 31, 2011 was \$(32.4) million (twelve month period ended March 31, 2010 - \$49.6 million).

The chilling of Blast Furnace #7 ultimately resulted in a loss in production of more than 200,000 tons. The loss associated with this event is considered exceptional and includes both repair costs and costs associated with lost production. The total loss recognized as exceptional during the fourth quarter of 2011 is \$37.5 million and is entirely related to the chilling of Blast Furnace #7 (for the fourth quarter of 2010 - \$nil). The company is currently working with its insurance provider concerning this event.

For the twelve month period ended March 31, 2011 the Company recorded exceptional charges amounting to \$18.9 million. Exceptional charges include the loss resulting from the chilling of Blast Furnace #7 and payments received in regards to an insurance claim. The insurance claim proceeds are related to the damage suffered at Blast Furnace #7 as a result of a failure in the bustle main in September 2009. Exceptional items of \$53.5 million for the year ended March 31, 2010 included the cost of the September 2009 damage to Blast Furnace #7 as well as inventory write-downs As a result of weakness in the economy.

Financial Resources and Liquidity

Summary of Cash Flows

(in millions of dollars)	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Operating activities:				
Cash flow (use) from operations before changes in in working capital	\$ (40.3)	\$15.9	\$ (112.7)	\$ (21.3)
Changes in non-cash working capital	(15.1)	35.4	48.0	(145.0)
	\$ (55.4)	\$ 51.3	\$ (64.7)	\$ (166.3)
Investing activities:				
Acquisition of property, plant and equipment	\$ (11.4)	\$ (23.6)	\$ (54.9)	\$ (91.7)
Proceeds on sale of assets held for sale	-	-	-	136.0
Acquisition of intangible asset	(0.7)	-	(2.0)	(0.6)
Loan receivable from related party	-	12.2	(11.3)	14.2
Restricted Cash	-	(0.1)	-	1.8
	\$ (12.1)	\$ (11.5)	\$ (68.2)	\$ 59.7
Financing activities:				
Bank indebtedness, net	\$ 67.7	\$ (5.2)	\$ 98.6	\$ 25.6
Proceeds of Secured Notes	-	-	-	402.1
Repayment of term loans	-	-	-	(331.9)
Advances from related parties	-	(4.1)	-	(4.1)
Other	(1.2)	0.5	(0.8)	(0.2)
	\$ 66.5	\$ (8.8)	\$ 97.8	\$ 91.5
Effect of exchange rate changes on cash	(0.2)	(0.3)	0.6	(5.6)
Change in cash and cash equivalents during the period	\$ (1.2)	\$ 29.1	\$ (34.5)	\$ (20.7)

Cash Flow from Operating Activities

The decrease in cash flow from operating activities for the fourth quarter of 2011 was primarily due to the chilling of Blast Furnace #7 discussed previously. The twelve-month period ended March 31, 2011 was negatively impacted by the higher ore pricing. Steel selling prices were higher during the year but not enough to offset the increase in ore pricing and this was a significant contributor to the reduction in cash flow.

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

	January 1 to March 31, 2011	January 1 to March 31, 2010	April 1, 2010 to March 31, 2011	April 1, 2009 to March 31, 2010
Accounts receivable	\$ 20.3	\$ (39.0)	\$ 38.5	\$ (67.6)
Inventories	90.7	45.7	(9.7)	(75.4)
Prepaid expenses	16.9	21.9	2.2	37.6
Accounts payable and accrued liabilities	(151.2)	13.3	1.2	37.2
Income and other taxes receivable / payable	8.2	(6.5)	15.8	(76.8)
Total	\$ (15.1)	\$ 35.4	\$ 48.0	\$ (145.0)

The decrease in accounts receivable in the fourth quarter of 2011 was primarily due to a decrease in shipments during the quarter due to the chilling of Blast Furnace #7. The decrease in inventories for the fourth quarter of

Financial Resources and Liquidity: *Cash Flow from Operating Activities* (continued)

2011 was due to a combination of the chilling of Blast Furnace #7 and a decrease in raw material inventories subsequent to winter stockpiling. The decrease in the accounts payable and accrued liabilities for the fourth quarter of 2011 was primarily due to a payment made to the pellet supplier as the result of the decision of an arbitration panel in favour of the pellet supplier. (See “Contractual Obligations and Off Balance Sheet Arrangements” discussion regarding Cleveland Cliffs.) The decrease in prepaid expenses was primarily due to receipt of pellets which were prepaid at the end of the previous quarter as per the Company’s iron ore contract. The increase in income and other taxes receivable was primarily due to tax losses incurred in the period.

The decrease of \$38.5 million in accounts receivable of 2011 over 2010 was primarily due to the low shipments in the fourth quarter and is related to the timing of cash receipts and invoicing in that period as a result of the chilling of Blast Furnace #7. There is also an improvement in the number of day’s sales outstanding at March 31, 2011 versus March 31, 2010 as a result of management focus in this area. The increase in income and other taxes receivable of 2011 over 2010 was primarily due to tax losses incurred in 2011.

As previously discussed, 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. Changes in foreign exchange rates during the year impact the determination of cash flow amounts.

Cash Flow from Investing Activities

Capital expenditures for the fourth quarter of 2011 totaled \$11.4 million, compared to \$23.6 million for the fourth quarter of 2010. Capital expenditures for the twelve month period ended March 31, 2011 totaled \$54.9 million. These included \$9.4 million on the blast furnace gas main replacement and utility corridor, \$2.6 million on the battery through wall repairs, \$1.3 million on the replacement and disposal of transformers containing PCBs and \$3.9 million on the #2 ladle metallurgy furnace (“LMF”). Expenditures in the twelve month period ended March 31, 2010 amounted to \$91.7 million including \$33.5 million on the cogeneration facility (AELP).

Cash Flow from Financing Activities

The Company utilizes short-term debt facilities to support working capital requirements. There was an increase in bank indebtedness of \$67.7 million during the fourth quarter of 2011. In contrast, the fourth quarter of 2010 saw a decrease in bank indebtedness of \$5.2 million.

Bank indebtedness increased by \$98.6 million in the twelve month period ended March 31, 2011, compared to an increase of \$25.6 million for the twelve month period ended March 31, 2010. In 2010, the company brought in proceeds from the issuance of secured notes (“Secured Notes”) of U.S. \$400 million. The Company applied the net proceeds from the sale of the Secured Notes to repay all amounts outstanding on the Term Loan Credit Facility (“Term Loan”), to reduce the balance of the Revolving Credit Facility (“Revolving Facility”) and for general corporate purposes.

Capital Resources - Financial Position and Liquidity

At March 31, 2011, the Company had \$71.0 million of unused availability under its Revolving Facility after taking into account \$16.8 million of outstanding letters of credit and the facility’s minimum excess availability requirement. In addition, the Company had \$5.7 million of unrestricted cash at March 31, 2011.

Borrowings under the Revolving Credit Facility are generally based on eligible accounts receivable and eligible inventories. In conjunction with the refinancing of the Term Loan Credit Facility and the issuance of the 9.375% Senior Secured Notes, the Revolving Facility lenders approved a third amendment to the facility which reduced the maximum facility size from U.S. \$425 million to U.S. \$350 million as of December 4, 2009. In order to make borrowings under the Revolving Credit Facility, the Company must satisfy certain borrowing base requirements, and either meet a fixed charge coverage ratio test or maintain minimum excess availability of 10% of the Revolving Credit Facility commitment of U.S. \$350 million. Presently, in order to

Capital Resources - Financial Position and Liquidity (continued)

make borrowings under the Revolving Credit Facility, the Company will be required to maintain minimum excess availability equal to U.S. \$35.0 million.

The Company is also required to be in compliance with various restrictive covenants which, among other things, limit the incurrence of additional indebtedness, limit investments, capital expenditures and dividends and restrict transactions with affiliates, permitted acquisitions, asset sales, liens and encumbrances and other matters customarily restricted in such agreements. The Company was in compliance with the financial covenant requirements of the Revolving Facility at March 31, 2011.

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

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

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

Contractual Obligations and Off Balance Sheet Arrangements

The following table presents, at March 31, 2011, our obligations and commitments to make future payments under contracts and contingent commitments. The following figures assume that the March 31, 2011 Canadian/U.S. dollar exchange rate remains constant.

(millions of dollars)	Less Than 1					After 5 Years
	Total	Year	1 – 3 Years	4 – 5 Years		
Bank indebtedness (1)	\$ 184.5	\$ 184.5	\$ -	\$ -	\$ -	
Long-term debt	760.8	-	-	760.8	-	
Operating leases	\$ 9.6	5.5	3.4	0.5	0.1	
Purchase obligations	6,819.8	710.9	878.2	615.3	4,615.4	
Other obligations	\$ 10.5	2.0	2.1	1.7	4.7	
Total	\$ 7,785.2	\$ 902.9	\$ 883.7	\$ 1,378.3	\$ 4,620.2	

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

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

The Company has 6 years remaining on this agreement and the minimum purchase commitment for the year ending March 31, 2012 is approximately U.S. \$483.5 million. Under the terms of the agreement, the Company makes bi-weekly payments based on iron ore deliveries in the previous week and an estimate of iron ore deliveries in the following week plus an adjustment for the difference between the estimate and actual shipments for the previous week.

The pricing of the iron ore purchased under these contracts is based on certain published benchmark pricing factors. The calendar year 2010 price was never finalized under this formula as certain of the benchmark pricing factors ceased to be published. As a result of an Arbitration Panel ruling, replacement benchmark factors have been established. The Company announced on April 20, 2011 that it had reached an agreement

Contractual Obligations and Off Balance Sheet Arrangements *(continued)*

with its iron ore supplier that includes the volume, supply and price of 2011 pellets as well as the acceptance of the previously announced arbitration decision.

The Company has entered into an agreement to purchase iron ore from a related party beginning in fiscal 2017 until 2026. The purchase commitment under this agreement is approximately \$4,072.3 million (U.S. \$4,200.0 million).

The Company has entered into agreements with a related party to source its coal requirements until June 30, 2012 at predetermined prices. The purchase commitment under these agreements is approximately \$247.4 million (U.S. \$255.2 million).

The Company has 15-1/3 years remaining in a contract with a single supplier for the purchase of oxygen, argon and nitrogen at mainly fixed prices. The annual purchases under this contract approximate \$28.0 million per year.

The Company is committed to purchase approximately 9.0 million MMBtus of natural gas at indexed prices in fiscal 2012 and approximately 2.1 MMBtus in periods beyond fiscal 2012.

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 (note 8).

Related Party Transactions

The Company's major shareholder, ESSAR Steel Holdings Ltd., and its commonly controlled affiliates are related parties. Related party transactions are measured at the exchange amount which is the amount of consideration agreed to between the parties, as disclosed in the related party transactions (note 23) to the consolidated financial statements.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Financial instruments are disclosed in notes 2 and 19 to the consolidated financial statements.

Transition from Canadian GAAP to IFRS

The Company has adopted the International Financial Accounting Standards ("IFRS") effective April 1, 2011 which requires the Company to restate the April 1, 2010 (the "transition date") IFRS balance sheet and include the fiscal year 2011 comparative IFRS financial statements on its fiscal year 2012 financial statements. In addition, the Company established an IFRS transition team who assessed the changes required and effect of conversion on a consolidated basis and assessed standards related to corporate and finance matters. The Company has performed its preliminary review of differences between Canadian GAAP and IFRS that affect the consolidated financial statements. The Company has determined that the following areas will have the highest impact on its accounting policies:

1. IFRS 1 First Time Adoption - All policy decisions with respect to applicable IFRS 1 choices were reviewed and approved by senior management. Some of the applicable IFRS 1 exemptions are listed below:
 - a) Business combinations: IFRS 1 provides the option to apply IFRS 3, "Business Combinations", retrospectively or prospectively from the transition date. The Company has elected this exemption; therefore, retrospective restatement of all business combination since inception will not be made.
 - b) Fair value or revaluation as deemed cost: The Company has elected to use a previous Canadian GAAP revaluation for property, plant and equipment on April 12, 2007, when Essar Steel Holdings Limited acquired the Company, as deemed cost.

Transition from Canadian GAAP to IFRS (continued)

- c) Employee benefits: This exemption permits the Company to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings on the transition date. The Company elects to apply this exemption and will adjust all cumulative actuarial gains and losses attributable to its defined benefit pension and other post-employment benefits to retained earnings.
 - d) IFRS 1 provides the option of resetting cumulative translation gains and losses to zero at the transition date. The Company has elected to reset all cumulative translation gains and losses to zero at the transition date.
2. There are currently several differences between IFRS requirements and existing Canadian GAAP accounting policies. Some of the more significant differences, as they relate to the Company, are set out in the table below, along with the preliminary unaudited impact on the opening IFRS balance sheet on April 1, 2010 (“opening IFRS balance sheet”) and the comparative IFRS balance sheet on March 31, 2011 (“comparative IFRS balance sheet”).

Standards	Comparison between Canadian GAAP (“CGAAP”) and IFRS	Preliminary Findings
Income taxes (IAS 12)	<p>CGAAP: prohibits the recognition of deferred taxes due to the change in the carrying value of non-monetary assets and liabilities when converting from local currency to functional currency</p> <p>IFRS: There is no such exception.</p>	<p>The non-monetary assets and liabilities of the Company are measured in its U.S. dollar functional currency. As the Company’s taxable profit or tax loss is determined in a different currency; Canadian \$, the changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or asset.</p> <p>The preliminary impact is a reduction in the deferred tax liability of approximately \$8.4 million with a corresponding pre-tax equity increase of \$8.4 million on the opening IFRS balance sheet. There is a further reduction in of \$17.7 million on the fiscal year 2011 IFRS financial statements.</p> <p>The changes presented above relate only to IAS 12 and do not include the deferred tax impact of the other IFRS adjustments presented in this table.</p>

Transition from Canadian GAAP to IFRS (continued)

<p>Property, Plant and Equipment (IAS 16)</p>	<p>CGAAP: Assets are to be recorded at costs upon initial acquisition and are to be depreciated over their useful life.</p> <p>IFRS: After initial recognition, there is the option to measure fixed assets using the cost model or the revaluation (mark-to-fair-market value) model.</p> <p>Where part of an item of property, plant and equipment; a component, has a cost that is significant to the item as a whole and a significantly different useful life, it must be depreciated separately.</p>	<p>The Company will use deemed cost.</p> <p>The preliminary pre-tax impact from componentized depreciation of the deemed cost is an increase in accumulated depreciation of approximately \$36.2 million and a corresponding decrease in pre-tax equity of \$36.2 million on the opening IFRS balance sheet. There is a further increase in accumulated depreciation of approximately \$18.6 million on the fiscal year 2011 IFRS financial statements</p>
<p>Employee Benefits (IAS 19)</p>	<p>CGAAP: Gains and losses related to defined benefit pension and other post-employment benefits are recorded using a 10% corridor approach.</p> <p>IFRS: Gains and losses related to defined benefit pension and other post-employment benefits are recorded using a 10% corridor approach or be immediately recognized either in profit and loss, or in other comprehensive income.</p>	<p>Actuarial gains and losses will be recognized directly in profit or loss when incurred at the end of each reporting period.</p> <p>The preliminary pre-tax impact is an increase in the accrued pension and other post retirement benefit liabilities of approximately \$108.3 million and a corresponding decrease in pre-tax equity of \$108.3 million on the opening IFRS balance sheet. There is a further increase in the accrued pension and other post retirement benefit liabilities of approximately \$61.8 million on the fiscal year 2011 IFRS financial statements.</p>
<p>Impairment of Assets (IAS 36)</p>	<p>CGAAP: Asset impairment testing is required where indicators of impairment are present and a two-step approach is used to determine where impairment exists and to measure the impairment loss, but discounting of future cash flow is not required at the initial step.</p> <p>IFRS: Asset impairment testing is required where indicators of impairment are present and a single-step impairment testing of assets at the independent cash generating unit (“CGU”) level will be required. In addition, discounting of future cash flow is not required.</p>	<p>The Company has identified its CGU and has finalized its evaluation of impairment upon transition, subject to management review and audit. Based on the evaluation, there is no indication of impairment of assets.</p>

Transition from Canadian GAAP to IFRS (continued)

<p>Provisions, Contingent Liabilities and Contingent Assets</p> <p>(IAS 37 and IFRIC 1)</p>	<p>CGAAP: Contingent losses are only recorded when it is likely that a future event will confirm that an asset has been impaired or a liability incurred and that the amount of the loss can be reasonably estimated.</p> <p>IFRS: IFRS introduce the concept of “constructive obligations” and “onerous contracts”. In addition, recognizing the more subjective nature of obligations, IFRS requires such obligations to be reflected as “Provision” on the face of the balance sheet, rather than included in account payable and accrued liabilities.</p> <p>IFRS requires decommissioning liabilities to be revalued for current discount rate applicable to the Company at each reporting period end.</p>	<p>The preliminary pre-tax impact relating to the adjustment for decommissioning liabilities is a decrease in provisions of approximately \$3.3 million and a corresponding increase in pre-tax equity of \$3.3 million on the opening IFRS balance sheet. The increase in provisions is estimated as \$0.4 million for the fiscal year 2011 IFRS financial statements.</p>
<p>Functional Currency (IAS 21)</p>	<p>CGAAP: Determination of functional currency is based on general guidance.</p> <p>IFRS: Determination of functional currency under IAS 21 is based on specific primary and other indicators.</p>	<p>This has led to a difference in the Company’s adoption date of U.S. functional currency. The preliminary impact is a decrease in the carrying value of non-monetary long-term assets and a corresponding decrease in equity on the opening IFRS balance sheet.</p>

The Company is prepared to transition from Canadian GAAP to IFRS based consolidated financial statements and reporting beginning with the first quarter of fiscal year 2012. The IFRS transition team has assessed the changes required to both the accounting records and financial statement presentation upon IFRS adoption. Key personnel have received IFRS training. The Company has reviewed internal controls and procedures and determined that no significant changes will be required to conform to IFRS requirements.

Critical Accounting Estimates

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

Risks and Uncertainties

Overview

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

RISKS RELATED TO THE COMPANY

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

The Company's activities and results are affected by international, national and regional economic conditions. Starting in September 2009, 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.

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

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

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 that global production levels will fail to adjust fully to rapidly falling demand or that production increases will outstrip demand increases in the early stages of recovery, resulting in an extended period of depressed prices and industry weakness.

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

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 2009, 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 2009, steel prices in global markets fell sharply beginning in the late summer of

RISKS RELATED TO THE COMPANY *(continued)*

2009 primarily as a result of collapsing demand and reduction in finished steel inventories, with demand remaining depressed through the first half of 2010. The fall in prices during this period adversely affected the results of steel producers generally as a result of lower revenues. Another protracted price or volume decline in the future would adversely affect the Company's cash flow and ability to pay for the Company's capital expenditures and other funding obligations.

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

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

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

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

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

Our business has historically been affected by both Canadian and United States trade legislation intended to limit "dumping" – the selling of steel into the United States or Canadian markets at prices below cost or below the price prevailing in a foreign company's domestic market. Dumping may result in injury to companies producing goods in Canada or the 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 the Company.

If 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 the Company. Moreover, trade regulations in other countries, particularly the United States, could materially adversely affect us to the extent that they reduce or eliminate the Company's access to certain steel markets. There can be no assurances that the Company will be able to compete effectively in the future.

RISKS RELATED TO THE COMPANY *(continued)*

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

The North American steel industry is cyclical in nature and sensitive to general economic conditions. The financial condition and results of operation of companies in the steel industry are generally affected by macroeconomic fluctuations in the Canadian, 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 has negatively impacted the Company's volume of shipments and selling prices. In addition, many of the customers are also affected by economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to us and would negatively impact the Company's financial results and cash flows. 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 labour strike. The Company initiated a bankruptcy proceeding in 1990 and emerged from bankruptcy protection by way of a \$60 million bridge loan from the Government of Ontario. In April 2001, the Company's liquidity was exhausted, due to, among other things, the slow ramp-up of the DSPC, the cash drain from operations, a decrease in supplier credit due to earlier payment demands and a decrease in the collateral value of the Company's working capital which decreased availability under the Company's banking facility. The Company also suffered from high debt service costs associated with the Company's capital expenditure program and a weakness in short-term steel markets combined with the impact of low-priced imported steel in North American markets. On April 23, 2001, the Company sought protection from creditors under the CCAA, emerging there from in 2002. There can be no assurance that the Company will not experience serious financial difficulties in the future.

Our operations could be affected by labour interruptions and difficulties.

We have approximately 3,200 full-time employees as of March 31, 2011, of which approximately 3,075, accounting for 96.1% of the Company's employees, are represented by two locals of the United Steelworkers of America ("USW") under two collective bargaining agreements. During the second quarter of fiscal 2011, the Company ratified labour agreements with Local 2724 and 2251. The new agreements are in place effective August 1, 2010 for 4 years for Local 2724 and 3 years for Local 2251. The Company may be unable to successfully negotiate future collective bargaining agreements without any labour disruption.

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

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

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

RISKS RELATED TO THE COMPANY *(continued)*

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.

Adverse Impact of the Company's Level of Indebtedness

The Company has significant debt obligations. If the Company is unable to meet its debt obligations, it may need to consider refinancing or amending credit agreements or adopting alternative strategies to reduce or delay expenditures, selling assets or seeking additional equity capital. In addition, the Company is exposed to interest rate risk, which mainly arises from the interest rate impact on variable rate debt. The Company manages interest rate risk through the periodic use of interest rate swaps for some of its outstanding variable rate debt.

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

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

Financial Restrictions

The Company's Revolving Credit Facility, Secured Notes and Senior Notes contain restrictive covenants which, among other things, limit the incurrence of additional indebtedness, limit investments, capital expenditures and dividends and restrict transactions with affiliates, permitted acquisitions, asset sales, liens and encumbrances and other matters customarily restricted in such agreements. The Company's ability to comply with these restrictions may be affected by events beyond its control. The Company may not achieve operating results that will permit it to meet these restrictive covenants or may need to take business actions prohibited by these covenants. These covenants may also limit the Company's ability to obtain additional or more favourable financing. In addition, substantially all of the Company's receivables and inventories have been pledged to secure its Revolving Facility.

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

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

We are dependent upon a small number of customers.

We are dependent upon a small number of customers. The Company's top ten customers accounted for approximately 40% of sales in fiscal 2011. Accordingly, a disruption of sales to certain of these customers could have a material adverse effect on the Company's results of operations and financial condition, particularly given the current economic environment.

RISKS RELATED TO THE COMPANY *(continued)*

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

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

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

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

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

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

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

Increases in the value of the Canadian dollar relative to the 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

RISKS RELATED TO THE COMPANY *(continued)*

substantial and could have an adverse effect on the Company's results of operations.

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

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to install within ten months after start up, certain equipment in the No. 6 Blast Furnace to reduce casthouse emissions. The cost of this equipment and its installation is currently estimated at approximately \$18 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors. Within this same Certificate of Approval are additional requirements for 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. The timeline for this project is currently under review with the Ontario Ministry of Environment.
3. The Company is required to install a new baghouse to be operational for the startup of the #2 LMF facility. There is no time line on this requirement. The estimate for the baghouse is \$8.2 million.

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

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

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

RISKS RELATED TO THE COMPANY *(continued)*

certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to have a material adverse effect on these consolidated financial statements. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and, as a result of these audits, may receive assessments and reassessments.

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

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

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

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

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

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

Technology and Competition

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

Competition of Products with Other Materials

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

The controlling 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

For the quarter ended	Sales	EBITDA (i)	Income (loss) from operations	Income (loss) before income taxes	Net income (loss)
Mar 31, 2011	\$386.1	\$ 9.9	\$ (78.3)	\$ (116.0)	\$ (91.1)
Dec 31, 2010	\$436.6	(155.7)	(203.8)	(253.1)	(194.9)
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 Mar 31, 2011	1,768.3	(32.4)	(252.6)	(373.2)	(285.9)
Mar 31, 2010	\$464.8	24.9	(30.4)	(82.0)	(68.3)
Dec 31, 2009	\$308.0	16.7	(66.7)	(103.6)	(63.3)
Sept 30, 2009	\$388.3	27.2	(37.5)	(133.4)	(120.8)
June 30, 2009	\$248.3	(19.2)	(83.8)	(168.2)	(143.5)
YTD Mar 31, 2010	1,409.4	49.6	(218.4)	(487.2)	(395.9)
Mar 31, 2009	\$402.8	(10.1)	(85.5)	(41.0)	(3.5)
Dec 31, 2008	\$533.6	16.0	(156.9)	(69.1)	(14.2)
Sept 30, 2008	\$850.5	243.2	161.4	191.8	146.0
June 30, 2008	\$760.6	204.3	151.1	131.8	89.0
YTD Mar 31, 2009	2,547.5	453.4	70.1	213.5	217.3
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
Mar 31, 2011	434	92	-	526
Dec 31, 2010	524	106	-	630
Sep 30, 2010	517	101	-	618
June 30, 2010	514	99	-	613
YTD Mar 31, 2011	1,989	398	-	2,387
Mar 31, 2010	596	102	-	698
Dec 31, 2009	413	58	-	471
Sep 30, 2009	581	75	-	656
June 30, 2009	327	64	8	399
YTD Mar 31, 2010	1,917	299	8	2,224
Mar 31, 2009	435	85	4	524
Dec 31, 2008	385	113	10	508
Sep 30, 2008	569	165	7	741
June 30, 2008	633	167	-	800
YTD Mar 31, 2009	2,022	530	21	2,573
Mar 31, 2008	534	149	-	683
Dec 31, 2007	628	131	-	759
Sep 30, 2007	306	130	-	436
June 30, 2007	480	140	-	620
YTD Mar 31, 2008	1,948	550	-	2,498
