

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 period from April 1, 2009 to June 30, 2009. The financial results reported in the consolidated financial statements reflect the financial condition and results of operations for the period April 1, 2009 to June 30, 2009 and April 1, 2008 to June 30, 2008.

The Company's year-end is March 31, 2010. 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 August 11, 2009 and should be read in conjunction with the June 30, 2009 unaudited Consolidated Financial Statements and accompanying Notes. 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 August 11, 2009. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The audited consolidated financial statements for 2009 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 operations located entirely in Canada. The Company produces sheet and plate products that are sold primarily in Canada and the United States.

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. Since U.S. markets establish pricing levels, the exchange rate of the Canadian dollar to the U.S. dollar significantly impacts pricing realizations for the Company.

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 refers to earnings before interest, taxes, depreciation and amortization, foreign exchange, interest income, exceptional items and non-controlling interest. 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 measures of the Company's financial performance.

Functional Currency

The Company's functional currency is the United States dollar ("U.S. dollar") which reflects the Company's increased operational exposure to the U.S. dollar. The Company has continued to use the Canadian dollar as its reporting currency. In accordance with Canadian generally accepted accounting principles, all amounts presented for the period of April 1, 2009 to June 30, 2009 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 (Cdn. \$1.1630 per U.S. \$1.00 for June 30, 2009). 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 first quarter ended June 30, 2009 are provided below.

Quarter	Average Rate	Period End Rate
April 1 - June 30, 2009	1.1671	1.1630

Sales

Sales for the first quarter of 2010 were \$248.3 million as compared to \$760.6 million for the corresponding period ended June 30, 2008, which is a decrease of 67.4%. The lower sales in the first quarter of 2010 were a result of both lower shipments and lower selling prices. Shipments were 398,921 tons in the quarter, a 50.1% decrease over the same three month period in fiscal 2009, due to the current economic downturn. Average net sales realization on steel sales (excluding freight) per ton shipped in the first quarter of 2010 was \$555 compared to \$890 per ton for the same three month period of fiscal 2009, reflecting lower steel selling prices worldwide.

Non-steel sales were \$7.4 million in the first quarter of 2010 as compared to \$10.4 million for the same three month period of fiscal 2009. Non-steel sales include sales of various by-products generated in the manufacturing process.

Cost of Sales

Cost of sales excluding amortization for the first quarter of 2010 was \$264.9 million and for the same period of fiscal 2009 was \$541.0 million. The cost of steel products sold (excluding depreciation, profit-sharing, freight and exceptional items) during the first quarter of fiscal 2010 was \$238.3 million representing a 50.1% decrease from the same period last year. On a percentage of total sales basis, cost of steel products sold was 96.0% for the first quarter as compared to 62.8% for the same period in fiscal 2009. On a per ton basis, cost of steel products sold was \$597 per ton in the first quarter as compared to \$596 for the same period in fiscal 2009.

There are a few key factors impacting cost of steel products sold in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. Costs that are denominated in Canadian dollars are impacted by fluctuations in U.S. to Canadian dollar exchange rates. The U.S. dollar has strengthened relative to the Canadian dollar by approximately 15% compared to the first quarter of fiscal 2009 and thus certain costs have risen accordingly. Lower production and the resultant absorption of fixed costs into less volume also had a negative impact on the cost of steel products per ton sold in the first quarter of 2010. Improved pricing of certain key inputs such as natural gas and scrap offsets these negative factors.

No profit sharing expense has been recorded during the first quarter of 2010 due to operating losses. During the first quarter of fiscal 2009 the Company recognized \$15.2 million of profit sharing expense.

Cost of non-steel products was \$7.4 million in the first quarter of 2010 as compared to \$10.4 million for the same three month period of fiscal 2009.

Administrative and Selling Expenses

Administrative and selling expenses in the first quarter were \$12.6 million compared to \$15.3 million for the corresponding period ended June 30, 2008.

Amortization

(in millions of dollars)	April 1 to June 30, 2009	April 1 to June 30, 2008
Amortization of property, plant and equipment	\$48.2	\$47.0
Amortization of identifiable intangible and non-production assets	6.5	6.2
Total	\$54.7	\$53.2

Amortization expense in the first quarter was \$54.7 million compared to \$53.2 million for the corresponding period ended June 30, 2008.

Income (Loss) from Operations

Loss from operations for the quarter ended June 30, 2009 was \$(83.9) million compared to income of \$151.1 million for the quarter ended June 30, 2008. The loss in the current quarter is primarily a result of lower sales and exceptional items due to the recent economic downturn.

Financial Income (Expense)

Interest on long-term liabilities for the quarter ended June 30, 2009 was \$14.4 million compared to \$15.5 million for the period ended June 30, 2008. Interest on short-term liabilities for the period ended June 30, 2009 was \$(2.1) million and \$1.8 million for the period ended June 30, 2008.

Investment income (loss) for the quarter ended June 30, 2009 was (\$0.1) million compared to \$0.1 million for the period ended June 30, 2008.

The unrealized foreign exchange loss for the quarter ended June 30, 2009 was \$72.0 million compared to a loss of \$4.7 million for the period ended June 30, 2008. These unrealized 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)	April 1 to June 30, 2009	April 1 to June 30, 2008
Pension expense	\$ 12.5	\$ 12.6
Post-employment benefit expense	7.3	7.3
Total	\$ 19.8	\$ 19.9

Pension expense in the quarter ended June 30, 2009 was \$12.5 million compared to pension expense for the quarter ended June 30, 2008 of \$12.6 million. Post-employment benefit expense in the quarter ended June 30, 2009 was \$7.3 million compared to post-employment benefit expense for the quarter ended June 30, 2008 of \$7.3 million.

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)	April 1 to June 30, 2009	April 1 to June 30, 2008
Tax provision at the statutory manufacturing and processing rate of 30.8% (2008 – 31.3%)	\$ (51.7)	\$ 42.6
Add (deduct):		
Impact of non-deductible (taxable) portion of exchange loss (gain)	28.3	(0.8)
Other	(1.4)	-
Total	\$ (24.8)	\$ 41.8

The Company's income tax loss carry-forwards were reduced by approximately \$180 million under the financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of Federal and Ontario non-capital loss carry-forwards, but fully utilized these losses by the third quarter of 2005. The Company's estimate of non-capital loss carry-forwards is currently under review by the Canada Revenue Agency and could be reduced, subjecting the Company to a tax liability if it is unsuccessful in supporting its positions.

The Company's 2002 and 2003 taxation years are presently under audit by the Canada Revenue Agency ("CRA"). The CRA has completed 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 financial reorganization. The CRA has proposed that the \$160 million be reduced to \$126.4 million. The Company intends to strongly defend its position with respect to the valuation, however if a reassessment is issued and the Company does not prevail through the objection process, the Company's available non-capital losses upon emergence from CCAA would be reduced by \$33.6 million. This would result in an income tax reassessment and cash taxes payable of approximately \$11.5 million plus applicable interest. The Company believes its valuation is supportable and consequently, no liability has been recorded in the financial statements.

Cannelton has non-capital losses, which are limited to use under IRC 382, of approximately U.S. \$50.4 million, of which U.S. \$12.1 million expire in 2009 and 2010, U.S. \$1.9 million in 2021 and U.S. \$36.4 million in 2022.

For the calendar and tax years 2002 to 2007, the Company has filed, or intends to file, scientific research and experimental development claims with Canada Revenue Agency (CRA) totalling \$309.8 million. The 2002 claim is currently under audit by CRA and prior to this the Company has no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or \$62.0 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. The claims have not had final audit assessment and CRA has given a preliminary assessment for 2002 that they may reject a portion of the amount claimed.

The Company has recognized the portion of the related tax benefit that management believes meets the threshold of "reasonable assurance" of realization. During the three months ended June 30, 2009 the Company adjusted the cost of sales by \$9 million to reflect a change in estimate of the previously recognized benefit. Accordingly, the total tax benefit recognized to date is \$31.0 million from the \$22 million recorded at March 31, 2009. The determination of the amount of tax benefit to recognize requires judgment, and is subject to change based on CRA's audit of the claims which could result in adjustments to income.

Non-controlling Interest

The Company has a 50.1% interest in Algoma Energy L.P. in which became operational on June 13, 2009. The non-controlling interest represents the 49.9% share of Algoma Energy L.P.'s loss for the quarter ended June 30, 2009.

EBITDA (i)

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

(in millions of dollars)	April 1 to June 30, 2009	April 1 to June 30, 2008
Net income (loss)	\$ (143.0)	\$ 89.0
Amortization	54.7	53.2
Interest expense/income	12.3	17.3
Income taxes	(24.8)	41.8
Foreign exchange loss	72.0	4.7
Change in the fair value of embedded derivatives	-	(1.6)
Investment income	0.1	(0.1)
Exceptional items	10.0	-
Non-controlling interest	(0.5)	-
EBITDA	\$(19.2)	\$204.3

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

During the first quarter of 2010, the Company recorded exceptional charges amounting to \$10.0 million primarily relating to inventory writedowns (\$nil for the quarter ended June 30, 2008).

EBITDA for the quarter ended June 30, 2009 was \$(19.2) million as compared to \$204.3 for the quarter ended June 30, 2008. The decline from the corresponding quarter ended June 30, 2008 is mainly attributable to lower shipments and lower selling prices due to the current economic downturn.

Financial Resources and Liquidity
Summary of Cash Flows

(in millions of dollars)	April 1 to June 30, 2009	April 1 to June 30, 2008
Operating activities:		
Cash flow from operations before changes in operating working capital	\$ (19.4)	\$ 133.6
Changes in non-cash operating working capital	10.0	(174.8)
	\$ (9.4)	\$ (41.2)
Investing activities:		
Acquisition of property, plant and equipment	\$ (30.4)	\$ (57.3)
Proceeds on sale of property, plant and equipment	-	0.3
Loan receivable from related party	(0.1)	-
Restricted Cash	(0.2)	4.0
	\$ (30.7)	\$ (53.0)
Financing activities:		
Bank indebtedness, net	\$ (11.8)	\$ 114.5
Redemption of 9.875% notes payable	-	(19.7)
Other	0.1	(0.1)
	\$ (11.7)	\$ 94.7
Effect of exchange rate changes on cash	(4.8)	0.3
Change in cash and cash equivalents during the period	\$ (56.6)	\$ 0.8

Cash Flow From Operating Activities

Cash loss from operations for the quarter ended June 30, 2009, before changes in non-cash operating working capital, was \$(19.4) million compared to a cash flow of \$133.6 million for the period ended June 30, 2008. The loss in the current quarter results primarily from a dramatically weakened steel market, lower shipments compared to the prior period and inventory write-downs.

Changes in non-cash operating working capital in the quarter was a source of cash of \$10.0 million compared to a use of cash of \$174.8 million in the period ended June 30, 2008. The changes in non-cash operating working capital were comprised of the following:

(in millions of dollars)	April 1 to June 30, 2009	April 1 to June 30, 2008
Accounts receivable	\$ 45.2	\$ (146.7)
Inventories	(11.9)	(113.2)
Prepaid expenses	43.3	(8.1)
Accounts payable and accrued liabilities	(31.7)	49.4
Income and other taxes receivable / payable	(34.9)	43.8
Total	\$ 10.0	\$ (174.8)

The decrease of \$45.2 million in accounts receivable was primarily due to lower sales in the quarter. The slight increase in inventories of \$11.9 million in the quarter was attributable to production in June that was to ship in early July. The decrease in prepaid expenses of \$43.3 million was primarily due to receipt of iron ore that was paid in advance under the Company's iron ore contract. The decrease in accounts payable and accrued liabilities of \$31.7 million was primarily due to a decrease in all levels of activity. The decrease in income and other taxes payable of \$34.9 million was primarily due to lower income taxes payable because of the loss during the quarter.

Cash Flow Used in Investing Activities

Capital expenditures in the quarter ended June 30, 2009 totaled \$30.4 million, compared to \$57.3 million in for the period ended June 30, 2008. Expenditures in the quarter ended June 30, 2009 included \$19.9 million on the cogeneration facility. Expenditures in the quarter ending June 30, 2008 included \$23.3 million on the cogeneration facility and \$19.3 million on the commissioning of #6 blast furnace.

Cash Flow from Financing Activities

Financing activities in the quarter ended June 30, 2009 included an increase in bank indebtedness of \$11.8 million. Financing activities in the quarter ended June 30, 2008 included a decrease in bank indebtedness of \$114.5 million and the redemption of 9.875% notes payable in the amount of \$19.7 million (face value U.S. \$20.0 million).

Contractual Obligations

(millions of dollars)	Less Than 1				After 5 Years
	Total	Year	1 – 3 Years	4 – 5 Years	
Bank indebtedness (1)	\$65.1	\$65.1	-	-	-
Long-term debt (2)	800.9	3.7	\$ 11.1	\$ 382.8	\$430.1
Operating leases	13.1	4.7	5.8	2.1	0.5
Purchase obligations (2)	2,044.5	434.0	491.1	491.1	628.2
AELP purchase obligations (2)	6.5	6.5	-	-	-
Other obligations	11.5	2.0	2.5	2.0	4.9

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

(2) Assumes June 30, 2009 Canadian/U.S. dollar exchange rate remains constant.

Financial Position and Liquidity

At June 30, 2009, the Company had \$93.3 million of unused availability under its Revolving Credit Facility and unrestricted cash of \$4.3 million for total availability of \$97.6 million.

The Company is in compliance with the financial covenant requirements of the existing debt agreements at June 30, 2009; however based on the current market conditions the Company anticipates it will not be in compliance in the second and third quarter of fiscal 2010. If the Company does not comply with these financial covenants, the Company intends to approach lenders for waiver of the requirements or amendment of the covenant test limits. Should the lenders not waive such covenant breach or an agreement to amend the covenants not be reached, the Company would seek to renegotiate the terms of the agreement. However the lenders could demand payment. The Company may also consider refinancing with a new facility. The outcome of these matters cannot be predicted at this time.

Required pension funding for fiscal 2009 was approximately \$53.9 million. For the Active Plans a valuation to determine funding requirements is required to be completed effective August 1, 2010.

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.

Recessionary Economy

The state of the global economy which has fallen into recession in the latter part of calendar 2008 and into calendar 2009 has the potential to adversely impact the Company's 2010 operating results. The timing of an economic recovery cannot be predicted with any certainty.

Variability of Financial Results

The Company's financial results may fluctuate substantially, not only due to the cyclicity of the steel industry and fluctuations in foreign exchange rates, but also due to other factors such as the Company's higher exposure to steel spot markets than most of its North American competitors, specific product competition, operating performance, uncontrollable increases in prices of raw materials and energy, and difficulties or delays in capital projects. The current financial crisis is negatively impacting economic conditions throughout the world and could significantly impact future financial results.

Highly Competitive Nature of the Global Steel Industry

In recent years, there has been a substantial increase in global steel capacity, particularly in China which has become the largest steel producer and consumer in the world. In addition, there has been consolidation of global steel producers and the emergence of an industry leader with global capacity exceeding 120 million tons representing approximately 10% of the global steel market and several other producers each producing in excess of 30 million tons of steel. A significant slowdown in growth and/or increases in capacity, which exceed consumption rates in China, could result in surplus steel which may be exported to world markets. In addition, an economic downturn which affects demand for the Company's products or an increase in the strength of the U.S. dollar or Canadian dollar relative to other currencies could increase imports. It is, therefore, possible that more unfairly priced imports could enter into the North American markets at a future date, resulting in price erosion, which would adversely affect the Company's ability to compete, its revenue and its profitability.

The Company competes with numerous foreign and domestic steel producers. Some of its competitors have greater financial and capital resources than the Company does and continue to 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 its customers. The Company's labour, 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 the Company, to the extent that they have lower cost of sales such as lower labour, raw material or energy costs or are government subsidized, they may be able to successfully compete. Although the Company is continually striving to improve its operating costs, it may not be successful in achieving labour, 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 experienced lengthy periods of difficult markets due to increased foreign imports. Due to unfavourable 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 reached high levels.

Since the beginning of 1997, over 35 U.S. 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.

Low Priced Imports and Trade Regulation

The Company's 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 the Company. 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 the Company. Moreover, trade regulations in other countries, particularly the United States, could materially adversely affect the Company 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 and profitability for the Company.

Cyclicality of the North American Steel Industry

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 its product mix, Essar Steel Algoma Inc. has a higher exposure to spot markets than most of its North American competitors and is, therefore, subject to more volatility in its 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. In the current economic downturn, the demand for our products has been negatively impacted resulting in lower 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 the Company and will negatively impact the financial results and cash flows. Although the Company has fixed-price customer contracts which typically range between 20% and 25% 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.

Supply and Cost of Raw Materials and Energy

The Company's 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 has certain contracts to purchase minimum quantity which is being currently renegotiated. The Company could be particularly adversely affected during a period of declining selling prices for steel without a corresponding decline 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. 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.

Currency Fluctuations

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. This 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.

Under-funding of Pension Plans

The Company has an unfunded pension liability which could increase due to changes to the 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

The Company provides certain post-employment benefits to its retirees. These benefits include drug, life insurance and hospitalization coverage. The Company does not pre-fund these obligations. The cash paid in the quarter ended June 30, 2009 to fund these benefits was \$3.9 million. Expected benefit payments for the 2010 year are \$20.6 million. 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 government to the Company.

Substantial Capital Investment and Maintenance Expenditures Required

The Company's 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. In light of current economic conditions, 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 it to make anticipated capital expenditures, service or refinance its indebtedness, or fund other liquidity needs.

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.

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 flows 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 term loan agreement 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; and
- 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.

Financial Restrictions

The Company's Revolving Credit Agreement and Term Loan Facility contain restrictive covenants including financial covenants that require the Company to maintain a maximum leverage ratio and a minimum EBITDA to interest expense ratio. In addition, the Agreements contain certain 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. If the Company does not comply with these financial covenants, the Company may approach lenders for waiver of the requirements or amendment of the covenant test limits. The Company may also consider refinancing with a new facility.

Labour Matters

The Company has approximately 3,350 active employees, of which approximately 3,250, representing 97% of the Company's employees, are represented by two locals of the United Steelworkers of America under two collective bargaining agreements. The collective agreements expire July 31, 2010. The Company may be unable to successfully negotiate new collective bargaining agreements without any labour disruption.

The Company's 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 have a material adverse effect on the Company's financial condition or results of operations.

Environmental Matters

The Company's operations are required to comply with an evolving body of 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 hazardous substances. These laws and regulations vary depending on the location of the facility and can fall within federal, provincial or municipal jurisdictions.

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. Essar Steel Algoma Inc. 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 \$10 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, by December 31, 2009, or within six 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 \$15-\$20 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 Essar Steel Algoma Inc. to implement environmental improvements which the company is currently assessing.

The Government of Canada has recently passed legislation that will require Essar Steel Algoma Inc. to remove 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 \$10 million.

The Company is required to fund the capital and operating cost of a mine closure in Wawa involving capital costs of approximately \$2 million during the period of 2010 to 2020. Future operating costs for the mine closure program are estimated at \$50,000 - \$100,000 annually until 2020, and then \$200,000 to \$300,000 commencing in 2020 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.

The Company's Environment, Health and Safety Department regularly reviews and audits the Company's operating practices to monitor compliance with Essar Steel Algoma Inc. environmental policies and legal requirements. The Company's environmental management system is ISO14001 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 business,

estimated capital or operating costs, financial condition, or results of operations of the Company. 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 the Company 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 its actions imposed under environmental laws, including as a result of actions or other proceedings commenced by third parties, such as neighbors or government regulators.

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.

Unexpected Equipment Failures

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 business, financial condition or results of operations of the Company. In addition, an unexpected failure in the Company's computer system may have the same result.

Dependence on Senior Management

The Company's operations and prospects depend, in large part, on the performance of its 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.

Insurance

To date, the Company has been able to obtain liability insurance for the operation of its 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 the Company will be covered by insurance.

Tax Loss Carry-forwards

The Company's income tax loss carry-forwards were reduced by approximately \$180 million under the financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of Federal and Ontario non-capital loss carry-forwards, but fully utilized these losses by the third quarter of 2005. The Company's estimate of non-capital loss carry-forwards is currently under review by the Canada Revenue Agency and could be reduced, subjecting the Company to a tax liability if it is unsuccessful in supporting its positions.

Supplementary Data

SELECTED QUARTERLY INFORMATION

For the quarter ended	June 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007
Sales	\$248.3	\$402.8	\$533.6	\$850.5	\$760.6	\$ 502.3	\$ 514.8	\$ 368.5
EBITDA (i)	(19.2)	(10.1)	16.0	243.2	204.3	71.4	48.9	(37.2)
Income (loss) from operations	(83.9)	(85.5)	(156.9)	161.4	151.1	20.5	(4.9)	(77.7)
Income (loss) before income taxes	(167.8)	(41.0)	(69.1)	191.8	130.8	(27.3)	(21.1)	(47.7)
Net income (loss)	(143.0)	(3.5)	(14.2)	146.0	89.0	\$ (25.3)	\$ 20.1	\$ (20.9)

(i) EBITDA is a non-GAAP measure and is defined on page 3 of this report. EBITDA includes exception items of \$10 million in the quarter ended June 30, 2009, \$24.0 million in quarter ended March 31, 2009 and \$106.0 million in quarter ended December 31, 2008.

Supplementary Data

SELECTED QUARTERLY SALES INFORMATION (in thousands of tons)

For the quarter ended	June 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007
Sheet	326	435	385	569	633	534	628	306
Plate	64	85	113	165	167	149	131	130
Slabs	8	4	10	7	-	-	-	-
Total	398	524	508	741	800	683	759	436