



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") is a review of our financial condition and results of operations, is based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers periods prior to and subsequent to the acquisition of Algoma Steel Inc. by Algoma Acquisition Corp., a subsidiary of Essar Steel Holdings Limited on June 20, 2007 (the "Transaction" or "Acquisition"). On that date, pursuant to a plan of arrangement, Algoma Steel Inc. (the "Predecessor") was acquired by Algoma Acquisition Corp. (the "Successor") incorporated on April 12, 2007 solely for the purpose of the acquisition. On June 23, 2007, Algoma Steel Inc. and Algoma Acquisition Corp. were amalgamated and continued operating as Algoma Steel Inc. ("New Algoma"). The financial results reported in the interim consolidated financial statements reflect the financial condition and results of operations of the Successor for the period April 12, 2007 to June 30, 2007 and reflect the results of the business in the period following the Acquisition. Other than activities in connection with the Acquisition, the Successor had no activities prior to the Acquisition. The reported results of operations from April 1, 2007 to June 19, 2007, April 1, 2006 to June 30, 2006, January 1, 2007 to June 19, 2007, and January 1, 2006 to June 30, 2006 are for Algoma Steel Inc. ("Predecessor"). The terms "Predecessor" or "Algoma" as used in this MD&A, refer to Algoma Steel Inc. and its subsidiaries on a consolidated basis, and the terms "Company", "we", "us" and "our" refer to combined Predecessor and Successor companies, unless the context otherwise requires or it is otherwise indicated. The Successor financial information may not be comparable to the Predecessor financial information as a result of the effect of the revaluation of assets and liabilities to their estimated fair market values at the date of Acquisition as a result of the application of accounting for business combinations. In addition, in this MD&A we have provided comparative analysis for certain amounts for the three and six month periods ended June 30, 2007, which combine the Successor and Predecessor results in those periods. Since these periods represent different bases of accounting as a result of purchase accounting, they may not be directly comparable.

This discussion should be read in conjunction with the unaudited interim consolidated financial statements and notes contained in this report. This discussion of the Company's business may include forward-looking information with respect to the Company, including its business and 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 including the factors discussed in the Predecessor's 2006 Management Discussion and Analysis and 2006 Annual Information Form.

This document has been reviewed by the Audit Committee of New Algoma's Board of Directors and contains information that is current as of August 15, 2007. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Additional information about Algoma is available in the Company's Annual Information Form which can be accessed from SEDAR at www.sedar.com.

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 highly correlated with the level of steel prices which is a major factor causing variation in operating results throughout a period. Raw material and energy costs have also emerged as significant factors in recent years. 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 Canadian producers.

Pricing levels increased in 2004 due to stronger global markets, particularly China, and improved steel demand in North America. Pricing in 2005 was influenced by excess steel inventories at the end of 2004 and weaker North American demand from several market sectors, reaching a low in September 2005 as excess inventories were depleted. Selling prices rose in the fourth quarter of 2005 due to a better balance between supply and demand and rose further in the second quarter of 2006. Overall, average selling prices increased in the third quarter of 2006, but

they started to decline near the end of the quarter due to excess steel service center inventories and they continued to decline in the fourth quarter. Pricing remained relatively stable for the first quarter of 2007 with only small increases from the levels reached near the end of the fourth quarter of 2006. Selling prices during the period April 1, 2007 to June 30, 2007 increased on average through the period, however this was fully offset by the strengthening Canadian dollar during the period. Decreased demand late in this period resulted in downward pressure on prices which has extended into July and August of 2007.

The cost of raw materials and natural gas escalated in 2004 and 2005 as input prices responded to the stronger demand. Natural gas costs declined in 2006 from the peaks reached in 2005. Iron ore prices, under a long-term supply agreement denominated in U.S. dollars, increased approximately 85% in 2005 but declined 3.25% in 2006. For calendar 2007 contract prices have increased 5.3% from 2006 prices. Coal costs also escalated in 2005 primarily because of spot market purchases due to temporary supply disruptions from the Company's main coal supplier. Coal costs also increased in 2006 due to the renegotiation in the first quarter of new supply agreements at less favorable prices. For calendar 2007 contract coal prices per ton will be approximately 8% lower than 2006 coal contract costs. The impact of an increase or decrease in raw material pricing on earnings is delayed by the consumption of opening inventories acquired at the previous year's price.

Critical Accounting Policies and Estimates

Our significant accounting policies are disclosed in note 2 to our interim consolidated financial statements for the period ended June 30, 2007, and in note 2 to the Predecessor's annual audited consolidated financial statements. These financial statements have been prepared using the same accounting principles and methods as were used in the Predecessor's Consolidated Financial Statements for the year ended December 31, 2006 except as disclosed in note 2 to the interim consolidated financial statements. The preparation of these financial statements requires us to make estimates that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosures of contingent items. Actual results could differ significantly from those estimates. The following discussion addresses our more critical accounting policies.

Inventory

Inventories are valued at the lower of average cost and net realizable value. Average cost is comprised of direct costs and an allocation of production overheads for finished goods and work in process. As a result of the application of accounting for business combinations, inventory was revalued to its estimated fair market value at the date of Acquisition, resulting in an increase in value of \$23.0 million.

Intangible Assets

The Company assigns value to intangible assets acquired in a business combination. The value assigned to intangible assets such as customer relationships, order backlogs and in-process research and development is determined by estimating future cash flows, discount rates, rates of attrition and useful lives of acquired intangible assets. As needed, independent external appraisers are engaged in assisting management to determine the appropriate fair values to be assigned to the intangible assets. Fair values are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates that reflect varying amounts of perceived risk. As the estimates of future cash flows, discount rates and attrition rates used to value and test the intangible assets for impairment are based on future events, any changes from the estimated amounts could have an impact on the annual impairment test and carrying value of the intangible assets.

Finite lived intangible assets are amortized on a straight-line basis over their estimated remaining useful lives, as follows:

Customer relationships	Over expected life, ranging from 12 to 14 years
Technology	Over expected useful life, ranging from 5 to 10 years
In-process research and development	Over expected useful life, ranging from 5 to 10 years
Supply agreements	Over terms of specific agreements, ranging from 1 to 20 years
Order backlogs	Over expected completion period

Finite lived intangible assets which are subject to amortization are evaluated for impairment when events or

conditions indicate that the carrying value may be impaired by comparing the carrying value to future undiscounted cash flows. For intangible assets with infinite lives and which are not amortized, an impairment test is performed at least annually which compares the carrying value of intangible assets to fair value. If impairment is determined to have occurred, an impairment loss is recognized for the excess of the carrying amount of the intangible asset over its fair value.

Income Taxes

The Company follows the liability method of income tax allocation. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided to the extent that it is not more likely than not that the future income tax assets will be realized. Investment tax credits related to research and development are recognized in earnings as a reduction of such expenses when the Company has made the qualifying expenditures and to the extent that there is reasonable assurance that the credits will be realized.

Long-lived Assets

On an annual basis, the Company reviews whether there are any indicators of impairment of its long-lived assets. If such indicators are present, the Company assesses the recoverability of the long-lived assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to net income.

Pension and Other Post-Employment Benefits

The Company has defined benefit pension plans and other post-retirement benefit plans for its employees and their dependants. The Company historically measures its accrued benefit obligation and the fair value of plan assets for accounting purposes at November 30 (the measurement date) each year. The accrued benefit obligations and the benefit costs are actuarially determined using the projected benefit method pro-rated on services. The majority of the Company's employees are members of Unions whose collective bargaining agreements expire on a three year interval. Past service costs resulting from negotiated benefits changes are amortized over the term of the collective agreement. Cumulative gains and losses (such as adjustments arising from experience gains and losses and changes in assumptions) in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of the active members expected to receive the benefits under the plans and over the average remaining life expectancy of 16 years for the plans where all, or almost all, of the employees are no longer active. The expected average remaining service period of active members of the pension plans at the measurement date of November 30, 2006 was 9 to 10 years (2005 – 10 years). The expected average remaining service period of active members related to the other post-employment benefits at the measurement date of November 30, 2006 was 11 years (2005 – 11 years).

The determination of the obligation and expense for defined benefit pension plans and post-retirement benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. The most significant assumptions are the discount rate, the rate of increase of compensation, expected rates of return on plan assets, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

Derivative Financial Instruments

To manage risks associated with future variability in cash flows attributable to certain commodity purchases,

the Company periodically utilizes derivative instruments. The Company uses physical delivery contracts and natural gas swap contracts with maturities of twelve months or less to manage risks associated with changing natural gas prices. The Company also utilizes steel swap contracts with maturities of twelve months or less to manage the risks associated with future variability in steel prices. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Where hedge accounting is intended to be used, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. Where hedging instruments are not demonstrated to be highly effective or when hedge accounting is not used, these derivative instruments are recorded at fair value on the balance sheet with unrealized gains and losses recorded in earnings as they occur.

Changes in Accounting Policies

On January 1, 2007, the Predecessor Company retroactively adopted, without restatement of prior periods, CICA Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3861, "Financial Instruments – Disclosure and Presentation", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges".

Section 1530, "Comprehensive Income" introduces the concept of comprehensive income, which consists of Net Income and Other Comprehensive Income (OCI). OCI represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses resulting from changes in fair value of certain financial instruments. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income, which is presented as a new category of Shareholders' Equity on the Consolidated Balance Sheet. Section 3251, "Equity", replaces Section 3250, "Surplus" and incorporates amendments resulting from the issuance of Section 1530.

Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation" establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives and related disclosures. Section 3855 requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Held-for-trading financial instruments are subsequently measured at fair value and changes in fair value are recognized in net income in the period in which they occur. Available-for-sale financial instruments are subsequently measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired at which time the amounts would be recognized in net income. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost.

Upon adoption of Section 3855, the Company designated its cash and cash equivalents and short-term investments as held-for-trading and its accounts receivable as loans and receivables. Accounts payable and accrued liabilities were designated as other financial liabilities.

Section 3865, "Hedges" specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Prior to the adoption of these new standards, the Company accounted for its natural gas swap contracts using hedge accounting. On the transition to the new standards, hedge accounting has not been used to account for these swaps. At January 1, 2007, these natural gas swap contracts had an unrecorded fair value liability of

\$1.3 million. At June 30, 2007 natural gas swap contracts had a fair value of nil. The Company also utilizes steel swap contracts, but these were not accounted for as hedges so the adoption of the new standards had no effect on the accounting for these derivatives. The fair value of the steel swap contracts at June 30, 2007 was an asset of \$0.7 million which is included in Prepaid expenses.

The adoption of these new standards resulted in the following changes for the Predecessor at January 1, 2007: the natural gas contracts were of a type that could qualify for hedge accounting under Section 3865 and consequently, a \$0.9 million charge was recorded in accumulated other comprehensive income; a \$0.4 million increase in future income tax assets; and, a \$1.3 million increase in liabilities for the natural gas swap liability. For the three month period ended March 31, 2007, the Company reclassified a loss \$0.9 million, net of \$0.3 million in related income taxes, into earnings. This represents the portion of the unrealized losses on the natural gas swap contracts deferred in accumulated other comprehensive income at the transition date that were realized during the period. Unrealized transition date losses of \$0.3 million that are included in accumulated other comprehensive income at March 31, 2007 were reclassified into earnings by June 19, 2007.

The Company selected January 1, 2003 as its transition date for separation of embedded derivatives in financial instruments or contracts. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. Certain contracts and instruments entered into prior to this transition date and not subsequently modified have not had embedded derivatives separated.

Transaction costs related to the issuance of debt are recorded as a component of the carrying amount of the related instrument on issue and are amortized to income using the effective interest rate method.

Impact of the Transaction

The Company entered into an arrangement agreement on April 15, 2007 with Algoma Acquisition Corp., a wholly owned subsidiary of Essar Steel Holdings Ltd. (“Essar”) whereby all of the issued and outstanding common shares, options and restricted share units of the Predecessor would be indirectly owned by Essar for \$56.00 per share. The Transaction was approved by the shareholders at a special meeting of shareholders held on June 11, 2007 and closed on June 20, 2007. Subsequently, the Predecessor’s common shares were de-listed from the Toronto Stock Exchange. In connection with the transaction certain transaction costs were incurred which were not capitalized as part of the purchase price, and have been included in “Transaction related expenses”.

The Transaction was accounted for using the purchase method of accounting for business combinations and, accordingly, the Transaction resulted in a new basis of accounting for the Company. The purchase price has been allocated on the basis of management’s estimate of the fair value of the underlying assets acquired and liabilities assumed. Management retained third party professionals to assist in the determination of the fair value of the underlying assets acquired and liabilities assumed. Independent appraisers were also engaged to assist in determining the fair values of property, plant and equipment, intangible assets acquired and employee future benefit plans. There was no goodwill recorded on the Transaction.

As a result of the purchase accounting associated with the Transaction, the assets and liabilities of the Predecessor are recorded by the Successor at their fair value. The fair values assigned to the assets (including inventory, property, plant and equipment and identifiable intangible assets) are amortized to income over their estimated useful lives.

Results of Operations for the period April 12, 2007 to June 30, 2007 (Successor), and April 1, 2007 to June 19, 2007 (Predecessor) and January 1, 2007 to June 19, 2007 (Predecessor) as compared to the periods April 1, 2006 to June 30, 2006 (Predecessor) and January 1, 2006 to June 30, 2006 (Predecessor)

(millions of dollars except per ton data)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Sales	\$50.4	\$431.9	\$504.8	\$50.4	\$911.4	\$1,004.4
Operating income (loss)	0.7	32.1	110.7	0.7	69.9	176.9
Income before taxes	10.1	(0.3)	110.4	10.1	37.3	171.1
Net income (loss)	12.2	(8.3)	79.2	12.2	14.8	111.9
Adjusted EBITDA (1)	10.6	46.3	125.2	10.6	100.1	205.7
Steel revenue per ton shipped	\$673	\$720	\$753	\$673	\$709	\$745
Adjusted EBITDA per ton shipped (1)	\$156	\$84	\$200	\$156	\$84	\$162
Steel shipments ('000s of tons)	68	552	625	68	1,195	1,268

(1) Earnings before interest, taxes, amortization, foreign exchange, investment income, inventory purchase accounting adjustment, and premium on redemption of the 11% Notes. This earnings measure is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles ("GAAP"). Non-GAAP earnings measures (such as EBITDA and Adjusted EBITDA) do not have any standardized meaning and therefore may not be comparable to similar measures presented by other companies. The Company considers EBITDA and Adjusted EBITDA to be meaningful indicators of operations and uses it as a measure to assess its operating performance. They are included because the Company believes they can be useful in measuring its ability to service debt, fund capital expenditures and expand its business. EBITDA and Adjusted EBITDA are also used by investors, analysts and the Company's lenders as measures of the Company's financial performance.

Sales

Sales in the Successor period were \$50.4 million. Sales for the Predecessor period April 1, 2007 to June 19, 2007 were \$431.9 million. Sales for the combined three month period ended June 30, 2007 were \$482.3 million as compared to Predecessor sales over the same period in 2006 of \$504.8 million. Steel revenue per ton shipped in the Successor period was \$673 and for the Predecessor period April 1, 2007 to June 19, 2007 were \$720. Steel revenue per ton for the three month period ended June 30, 2007 were \$715 as compared to Predecessor steel revenue per ton over the same period in 2006 of \$753.

Sales Mix

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Sheet and strip	\$28.2	\$270.0	\$327.7	\$28.2	\$586.5	\$671.0
Plate	17.4	127.6	142.8	17.4	260.0	273.1
Freight	<u>2.8</u>	<u>23.2</u>	<u>21.1</u>	<u>2.8</u>	<u>49.4</u>	<u>43.5</u>
Total Steel Products	48.4	420.8	\$491.6	48.4	895.9	987.6
Non-steel sales	<u>2.0</u>	<u>11.1</u>	<u>13.2</u>	<u>2.0</u>	<u>15.5</u>	<u>16.8</u>
Total	\$50.4	\$431.9	\$504.8	\$50.4	\$911.4	\$1,004.4

Sales mix on a per ton basis was as follows:

(Per ton)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Sheet and strip	\$542	\$631	\$667	\$542	\$621	\$662
Plate	1,088	1,029	1,066	1,088	1,036	1,075
Freight	<u>41</u>	<u>42</u>	<u>34</u>	<u>41</u>	<u>41</u>	<u>34</u>
Total Steel Products	\$712	\$762	\$787	\$712	\$750	\$779

Steel Shipments

	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
<u>Shipments (000's of net tons)</u>						
Sheet	52	428	491	52	944	1,014
Plate	<u>16</u>	<u>124</u>	<u>134</u>	<u>16</u>	<u>251</u>	<u>254</u>
Total	68	552	625	68	1,195	1,268

Cost of Sales

Cost of sales in the Successor period was \$43.2 million. Cost of sales for the Predecessor period April 1, 2007 to June 19, 2007 was \$370.9 million. For the period April 1, 2007 to June 30, 2007, combining both the Successor and Predecessor, cost of sales was \$414.1 million or \$668 per ton as compared to \$360.8 million or \$577 per ton over the same period in 2006.

Cost of sales in dollars was as follows:

(millions)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Steel products	\$ 41.0	\$ 334.5	\$ 319.8	\$ 41.0	\$ 709.9	\$ 690.9
Profit sharing	(2.2)	2.2	10.7	(2.2)	5.1	15.3
Freight	2.8	23.2	21.1	2.8	49.4	43.5
Non-steel sales	1.6	11.0	9.2	1.6	14.7	12.7
Total	\$ 43.2	\$ 370.9	\$ 360.8	\$ 43.2	\$ 779.1	\$ 762.4

Cost of sales on a per ton basis was as follows:

(Per ton)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Steel products	\$604	\$606	\$512	\$604	\$594	\$545
Profit sharing	(32)	4	17	(32)	4	12
Freight	41	42	34	41	41	34
Non-steel sales	24	20	14	24	13	10
Total	\$637	\$672	\$577	\$637	\$652	\$601

On a percentage of sales basis, cost of sales was 86% during the April 1, 2007 to June 19, 2007 Predecessor period in 2007 as compared to 71% during the April 1, 2006 to June 30, 2006 period. The increase in cost as a percentage of revenue was partly attributable to lower sales returns but was mainly due to increased manufacturing costs related to coal, alloys, iron ore, natural gas, labour and repairs & maintenance. The Successor period includes a substantial increase in cost of sales due to the impact of purchase accounting on opening inventory values. On June 20, 2007 the cost of inventory on hand increased by \$23.0 million to represent the fair value for purchase accounting, thus resulting in higher cost of sales during the Successor period in the amount of \$5.2 million or \$77 per ton. This increase was offset by a favourable foreign exchange differential in the period April 1, 2007 to June 30, 2007 of \$2.7 million.

Substantially all of the remaining purchase accounting increment included in carrying amounts of inventory amounting to \$17.8 million at June 30, 2007, will flow through cost of sales in the third quarter ended September 30, 2007 as the acquisition date inventory is sold.

Raw materials

Iron ore prices under our exclusive supply agreement Cleveland-Cliffs Inc. for the supply of iron ore have not changed significantly in the period April 1, 2007 to June 30, 2007 compared to the same period in 2006. However, during the second quarter of 2006 a significant adjustment was recorded to reflect a retroactive price decrease concerning iron ore. This had a favourable impact on that quarter's cost of sales in the amount of \$7.6 million.

We obtain our coal requirements mainly through a consignment arrangement with the coal held in a consignment inventory in Sault Ste. Marie. Coal consumption in the period April 1, 2007 to June 30, 2007 totaled approximately \$42.1 million (356,000 tons dry basis), an increase of \$10.7 million from the second quarter of 2006 total of \$31.4 million (353,000 tons dry basis). Consumption of 2007 priced coal during the period April 1, 2007 to June 30, 2007 resulted in a negative price variance of \$9.5 million compared to the second quarter of 2006. The lower cost in 2006 is due to the delayed impact of 2006 price increases until the third quarter of 2006. In 2006 the price of coal increased dramatically compared to 2005, however due to timing and inventory effect, the Company did not realize this increase until the third quarter of 2006. Our 2007 contract prices represent an overall decrease from the 2006 contract and we will realize the benefit of this decrease in our comparison of the third quarter between years. The remaining variance is due to a change in the mix of coal types utilized in the coke-making process.

Consumption of alloys totaled \$32.4 million in the combined period April 1, 2007 to June 30, 2007 as compared to \$24.0 million in the second quarter of 2006. The 35% increase is a product of both price increases in our key alloy types and higher consumption rates due to increased production of high alloy slabs for select quench and temper plate grades. For example, nickel prices have risen 233% in the period April 1, 2007 to June 30, 2007 as compared to the second quarter of 2006. Combined with other sharp price increases in molybdenum and manganese, the total price variance between periods totaled \$5.2 million.

Energy

Energy costs include natural gas, purchased electricity, oxygen and other miscellaneous items. Our total energy costs increased in the period April 1, 2007 to June 30, 2007 by 7% as compared to the same period in 2006 mainly due to higher prices and higher consumption of natural gas. The average price of natural gas increased by 8% over the same period in 2006 and natural gas accounted for 60% of our total energy costs in the period April 1, 2007 to June 30, 2007. Total natural gas costs were \$28.2 million in the period April 1, 2007 to June 30, 2007 compared to \$24.3 million in the second quarter of 2006. There were no significant variances between the periods related to electricity or oxygen.

Employment costs

Increases in base wage rates during 2007 (as per our collective bargaining agreements) have been offset by decreases in pension expenses and have allowed the total hourly cost per employee to remain steady compared to 2006. Overall, manufacturing and service labour is higher in the period April 1, 2007 to June 30, 2007 compared to the same period in 2006 due to increased employment levels. As of June 30, 2006 Algoma employed approximately 2,414 local 2251 employees compared to approximately 2,558 as of June 30, 2007. The total cost of manufacturing and service labour in the second quarter of 2007 totaled \$78.7 million compared to \$74.3 million in the second quarter of 2006.

Repairs & maintenance

The period April 1, 2007 to June 30, 2007 presented many operating challenges which caused increased downtime and higher repair costs compared to the same period in 2006. As a result, finished steel production was down 6% between the periods (553,000 tons vs. 588,000 tons) and raw steel production was also lower (646,000 tons vs. 665,000 tons). The combination of increased repair costs and lower production levels resulted in a \$23 per ton increase in the cost of finished steel between periods.

The partial reline of the No. 7 Blast Furnace scheduled for July 2007 is taking longer than the original estimate of 31 days. The shutdown and quenching of the furnace took longer than planned and upon inspection of the furnace interior, the scope of the repair work was expanded. This extension of the shutdown will result in reduced sales and earnings in the third quarter of 2007.

Other

Approximately 7,000 tons of finished goods produced from purchased slabs and coils were sold in the Successor period. Approximately 62,000 tons of finished goods from purchased slabs and coils were sold for the Predecessor period April 1, 2007 to June 19th, 2007. Finished goods produced and sold from purchased slabs and coils for the three months ended June 30, 2007 were 69,000 tons compared to 40,000 tons in the same period in 2006.

Raw steel production in the Successor period was 68,000 tons. Raw steel production for the Predecessor period April 1, 2007 to June 19, 2007 was 578,000 tons. Raw steel production for the three month period ended June 30, 2007 was 646,000 tons as compared to Predecessor over the same period in 2006 of 665,000 tons.

Administrative and Selling Expenses

Selling, general and administration expenses ("SG&A") in the Successor period were \$1.8 million or 3.6% of sales. SG&A for the Predecessor period April 1, 2007 to June 19, 2007 were \$14.7 million or 3.4% of sales. SG&A for the combined three month period ended June 30, 2007 were \$16.5 or 3.4% of sales as compared to Predecessor SG&A over the same period in 2006 of \$18.8 million or 3.7% of sales. SG&A includes primarily personnel costs, marketing and advertising, information technology costs, professional fees, management travel and stock based compensation expense.

Amortization

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Amortization of property, plant and equipment	\$ 4.1	\$14.2	\$14.5	\$ 3.9	\$30.2	\$28.8
Amortization of identifiable tangible assets	\$ 0.6	\$ -	\$ -	\$ 0.6	\$ -	\$ -
Total	\$ 4.7	\$14.2	\$14.5	\$ 4.7	\$30.2	\$28.8

Amortization expense in the Successor period was \$4.7 million. Amortization expense for the Predecessor period April 1, 2007 to June 19, 2007 was \$14.2 million. Amortization expense for the combined three month period ended June 30, 2007 was \$18.9 million as compared to Predecessor amortization expense over the same period in 2006 of \$14.5 million. In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amounts of property, plant and equipment of \$1,211.7 million and the recording of identifiable intangible assets of \$198.4 million. The increase in the carrying value of property, plant and equipment, in addition to the book value that existed at the close of the Transaction will be amortized over periods ranging from 1 to 40 years and will result in additional amortization of approx. \$84.6 million over the next twelve months as compared to the previous twelve months annual property, plant and equipment amortization expense of the Successor and Predecessor combined. The identifiable intangible assets will be amortized over periods ranging from less than one year to 22 years and will result in additional amortization of approximately \$24.4 million over the next twelve months. There were no intangible assets recorded in the books of either the Successor or the Predecessor over the previous twelve months and, accordingly, no amortization expense.

Transaction Related Expenses

Transaction related expenses totaled \$23.6 million and were incurred as follows:

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007
Professional and advisory fees of Predecessor	\$ -	\$9.1
Severance expense	-	6.7
Recognition of outstanding stock based compensation expense	-	5.4
Bridge loan fees	<u>2.4</u>	<u>-</u>
Total	\$2.4	\$21.2

The Predecessor Company incurred \$9.1 million in transaction fees, including legal, accounting, advisory fees and other costs related to the Transaction which were not eligible to be capitalized and are included in transaction related expenses for the Predecessor period April 1, 2007 to June 19, 2007. In addition the Predecessor incurred \$6.7 million in severance costs related to the termination of employment contracts that existed with the Predecessor.

Included in transaction related expenses for the Predecessor period April 1, 2007 to June 19, 2007 was \$5.4 million in expense related to stock-based compensation settlements. These stock-based compensation costs were for the value of the vested and unvested stock options accounted for using the settlement basis of accounting. As a result of

the transaction, the vesting of these stock based instruments was accelerated. The previously unrecognized expense related to these instruments was recorded at the closing of the transaction when the instruments were settled.

Financial Expense (Income)

Interest expense in the Successor period was \$2.9 million. Interest expense for the Predecessor period April 1, 2007 to June 19, 2007 was \$0.9 million. Interest for the combined three month period ended June 30, 2007 was \$3.8 million as compared to \$0.5 million of interest expense for the Predecessor over the same period in 2006. Successor interest expense resulted from acquisition financing that was secured to finance the Transaction.

Investment income in the Successor period was nil. Investment income for the Predecessor period April 1, 2007 to June 19, 2007 was \$1.6 million. Investment income for the combined three month period ended June 30, 2007 was \$1.6 million as compared to Predecessor investment income over the same period in 2006 of \$3.4 million.

Foreign exchange gains in the Successor period were \$7.5 million and resulted primarily from gains on US dollar denominated debt. Foreign exchange losses for the Predecessor period April 1, 2007 to June 19, 2007 were \$11.9 million and related to the holding loss realized on US dollar denominated monetary assets including accounts receivable, accounts payable and cash. During the period April 1, 2007 to June 30, 2007, net US \$ monetary assets averaged approximately \$120 million and the Canadian dollar strengthened versus the US dollar going from 1.1529 to 1.0634. Foreign exchange loss for the combined three month period ended June 30, 2007 was \$4.4 million as compared to Predecessor foreign exchange loss over the same period in 2006 of \$3.2 million.

Prior to the Transaction, Algoma Acquisition Corp. entered into foreign exchange forward and option contracts to purchase Canadian dollars with U.S. dollars in order to manage the currency exchange risk associated with funding the Canadian dollar purchase price with U.S. dollars. These contracts were not accounted for as hedges and for the period April 12 to June 30, 2007, the Successor recorded a gain of \$17.0 million and related premium expense of \$9.8 million on these foreign exchange option and forward contracts.

Pension and Post Employment Benefits

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Pension expense	0.6	\$10.1	\$13.7	0.6	\$21.6	\$27.3
Post-employment expense	0.8	7.1	7.8	0.8	15.1	15.6
Total	\$1.4	\$17.2	\$21.5	\$1.4	\$36.7	\$42.9

Pension expense in the Successor period was \$0.6 million. Pension expense for the Predecessor period April 1, 2007 to June 19, 2007 was \$10.1 million. Pension expense for the combined three month period ended June 30, 2007 was \$10.7 million as compared to Predecessor pension expense over the same period in 2006 of \$13.7 million.

Post employment benefit expense in the Successor period was \$0.8 million. Post employment benefit expense for the Predecessor period April 1, 2007 to June 19, 2007 was \$7.1 million. Post employment benefit expense for the three month period ended June 30, 2007 was \$7.9 million as compared to Predecessor post employment benefit expense over the same period in 2006 of \$7.8 million.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of

pension and post employment benefit liabilities of \$110.7 million and \$107.4 million respectively. The increase was primarily attributable to the recognition of previously unrecorded actuarial experience gains and losses and past service costs that were previously deferred and amortized over the expected average remaining service life of the employee group in accordance with GAAP. This will result in a reduction in pension and other post-employment benefit expense in future periods because of the elimination of the Predecessor's amortization of actuarial experience gains and losses and past service costs.

Provision for Income Taxes

Income taxes in the Successor period were a recovery of \$2.1 million. Income taxes for the Predecessor period April 1, 2007 to June 19, 2007 were an expense of \$8.0 million. Income taxes for the combined three month period ended June 30, 2007 were \$5.9 million as compared to the Predecessor over the same period in 2006 of \$31.2 million.

Income taxes for the Predecessor periods April 1, 2007 to June 19, 2007 and January 1, 2007 to June 19, 2007 reflect the impact of \$85.0 million of pension plan prepayments made in December 2006.

The following table provides a reconciliation of the statutory rates to the actual provision rate for each of the periods presented:

	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
	%	%	%	%	%	%
Tax provision at the Statutory Manufacturing and Processing Rate	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%
Impact of future Federal tax rate reductions	(44.0)		(10.5)	(44.0)		(6.8)
Change in Future Tax Asset Valuation Allowance:						
Impact of Pension Expense			2.2			3.8
Impact of Post Employment Expense		(1,200.0)	1.7		13.7	2.9
Other	<u>(10.9)</u>	<u>(1,500.8)</u>	<u>0.8</u>	<u>(10.9)</u>	<u>12.5</u>	<u>0.6</u>
Total	(20.8%)	(2,666.7%)	28.3%	(20.8%)	60.3%	34.6%

The long-term future income tax liability of \$388.7 million at June 30, 2007 is comprised primarily of future tax liabilities of \$543.2 million related to differences between tax values and book values of property, plant and equipment, offset by the future tax benefits of \$152.2 million related to pension and post-employment benefit liabilities deductible for tax only when funded.

In conjunction with the Transaction, the Company applied purchase accounting and recorded the fair value of assets acquired and liabilities assumed as of June 20, 2007. The result was an increase in the historical carrying amount of net future income tax liabilities of \$268.8 million. The increase was primarily attributable to the tax effect of fair value adjustments to property, plant and equipment, inventory, intangible assets and pension and post-employment benefit obligations.

Net Income (loss)

Net income in the Successor period was \$12.2 million. Net loss for the Predecessor period April 1, 2007 to June 19, 2007 was \$8.3 million. The net loss for the combined Successor and Predecessor periods in the current year are not comparable to the prior year comparative periods as a result of the impact of purchase accounting and other transaction-related costs.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are not recognized measures for financial statement presentation under Canadian generally accepted accounting principles. EBITDA and Adjusted EBITDA are not intended to represent cash flow from operations, as defined by Canadian GAAP, and should not be considered as alternatives to net earnings, cash flow from operations, or any other measure of performance prescribed by GAAP. The Company's EBITDA and Adjusted EBITDA may also not be comparable to EBITDA and Adjusted EBITDA reported by other companies which may be calculated differently. The Company considers EBITDA and Adjusted EBITDA to be meaningful indicators of operations and uses them as measures to assess its operating performance. They are included because the Company believes they can be useful in measuring its ability to service debt, fund capital expenditures, and expand its business. EBITDA and Adjusted EBITDA are also used by investors, analysts, and the Company's lenders as a measure of the Company's financial performance.

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

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Net income (loss) in accordance with GAAP	\$ 12.2	\$ (8.3)	\$ 79.2	\$ 12.2	\$ 14.8	\$111.9
Amortization	4.7	14.2	14.5	4.7	30.2	28.8
Interest expense	2.9	0.9	0.5	2.9	1.3	1.1
Investment income	-	(1.6)	(3.4)	-	(3.3)	(6.1)
Income taxes	(2.1)	8.0	31.2	(2.1)	22.5	59.2
Premium on redemption of 11% notes	-	-	-	-	-	7.9
EBITDA	17.7	13.2	122.0	17.7	65.5	202.8
Transaction related expenses	2.4	21.2	-	2.4	21.2	-
Currency contract gains, net	(7.2)	-	-	(7.2)	-	-
Foreign exchange loss (gain)	(7.5)	11.9	3.2	(7.5)	13.4	2.9
Inventory purchase accounting adjustment	5.2	-	-	5.2	-	-
Adjusted EBITDA	\$ 10.6	\$46.3	\$125.2	\$ 10.6	\$100.1	\$205.7

Adjusted EBITDA in the Successor period was \$10.6 million. Adjusted EBITDA for the Predecessor period April 1, 2007 to June 19, 2007 was \$46.3 million. Combined Adjusted EBITDA for the three month period ended June 30, 2007 was \$56.9 million as compared to the Predecessor over the same period in 2006 of \$125.2 million. Adjusted EBITDA per ton shipped in the Successor period was \$156 per ton and for the Predecessor period April 1, 2007 to June 19, 2007 was \$84 per ton. Adjusted EBITDA per ton for the combined three month period ended June 30, 2007 was \$92 per ton as compared to Predecessor Adjusted EBITDA per ton over the same period in 2006 of \$200.

Financial Resources and Liquidity

(millions of dollars)	As at			Predecessor March 31, 2007
	Face Value	Successor June 30, 2007 Deferred Fees	Net Debt	
Revolving credit facility	\$ 98.6	\$ -	\$ 98.6	\$ -
Term loan (U.S. \$450 million)	479.4	(10.5)	468.9	-
Senior unsecured notes (U.S. \$450 million)	479.4	(15.9)	463.5	-
Letters of credit outstanding	<u>28.3</u>	-	<u>28.3</u>	<u>24.1</u>
Consolidated Indebtedness (1)	\$1,072.6	(\$26.4)	\$1,046.2	\$130.1

(1) Consolidated Indebtedness is as defined in the Revolving Credit Agreement and Term Loan Agreement (the "Credit Agreements").

To fund the Transaction the Successor entered into various debt facilities including a U.S. \$425 million Asset Based Lending Facility, a U.S. \$450 million Term Loan Facility and issued U.S. \$450 million of Senior Notes. The total amount drawn on these facilities at close was \$1,048.3 million.

Our ability to make scheduled payments of principal, or to pay interest, or to refinance indebtedness, or to fund capital expenditures, will depend on future performance, which, to a certain extent is subject to general economic conditions, steel and factor input prices, steel market supply and demand dynamics, exchange rates, and other competitive, legislative and regulatory factors beyond our control. We believe that cash flow from operations together with borrowings available under our credit facilities will be adequate to meet our future liquidity needs throughout the term of the loans. There can be no assurance that we will generate sufficient cash flow from operations that anticipated revenue growth and operating improvements will be realized or that future borrowings will be available under our credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our liquidity needs. In addition, there can be no assurance that we will be able to affect any future refinancing on commercially reasonable terms or at all.

Senior Secured Credit Facility

On June 20, 2007 we entered into a senior secured credit facility which included a six year U.S. \$450 million term loan with an interest rate of LIBOR plus 2.50% that amortizes at 1% per year. The proceeds from this facility were used to partially fund the Transaction.

In addition the Company entered into a U.S. \$425 million revolving credit facility which was made available to partially fund the Transaction and for general corporate purposes. The revolving credit facility interest rate is subject to a pricing grid ranging from LIBOR plus 1.25% to LIBOR plus 2.00%. As at June 30, 2007 the interest rate was LIBOR + 1.25%. The applicable margin over LIBOR is dependent on the average excess availability under the facility for the preceding fiscal quarter.

The senior secured credit facilities provide for the payment to the lenders of a commitment fee on the average daily undrawn commitments under the revolving credit facility of 0.25% per annum, a fronting fee on letters of credit of 0.15%, and a letter of credit fee ranging from 1.25% to 2.00% depending on the average excess availability under the revolving facility (less the 0.15% fronting fee).

The senior secured credit facilities require the Company to meet a maximum leverage ratio of 6.0 times Consolidated EBITDA, as defined, and a minimum Consolidated EBITDA to interest expense ratio of 1.75 times, as defined in the Credit Agreements (see discussion on non-GAAP measures) as of September 30, 2007. These ratios will be adjusted over the passage of time, ultimately reaching a maximum leverage ratio of 3.5 times Consolidated EBITDA, and a minimum Consolidated EBITDA to interest expense ratio of 3.5 times. In addition, the senior credit facilities contain certain restrictive covenants which, among other things, limit the incurrence of additional indebtedness, investments, amount of capital expenditures, dividends, transactions

with affiliates, permitted acquisitions, asset sales, liens and encumbrances and other matters customarily restricted in such agreements. They also contain certain customary events of default, subject to grace periods, as appropriate.

The Consolidated Debt to Consolidated EBITDA calculation measures the net debt on the balance sheet against Consolidated EBITDA, as defined, over the last twelve months of both the Successor and the Predecessor. This ratio was 3.6:1 at June 30, 2007. The interest coverage ratio measures Consolidated EBITDA as a multiple of interest expense over the last twelve months on a pro-forma basis as if the debt had been outstanding at the beginning of the period. This ratio was 3.0:1 at June 30, 2007.

Senior Unsecured Notes

On June 20, 2007 the Company issued senior unsecured notes pursuant to a Trust Indenture of U.S. \$450 million, the proceeds of which were used to partially fund the Transaction. The senior notes are due in June of 2015 and bear interest at 9.875%.

The indentures governing the notes limit our ability to:

- incur additional indebtedness;
- pay dividends on or make other distributions or repurchase our capital stock or make other restrictive payments;
- make certain investments and limit capital expenditures;
- sell assets;
- enter into certain transactions with affiliates

Cash Flow From Operating Activities

Cash flow from operating activities in the Successor period was \$15.7 million. Cash flow from operating activities for the Predecessor period April 1, 2007 to June 19, 2007 was \$21.6 million. Cash flow from operating activities for the combined three month period ended June 30, 2007 were \$37.3 million as compared to the Predecessor over the same period in 2006 of \$102.5 million.

Changes in non-cash operating working capital were comprised of the following:

(millions of dollars)	Successor April 12 to June 30, 2007	Predecessor April 1 to June 19, 2007	Predecessor April 1 to June 30, 2006	Successor April 12 to June 30, 2007	Predecessor January 1 to June 19, 2007	Predecessor January to June 30, 2006
Accounts receivable	(\$4.9)	\$41.9	(\$17.8)	(\$4.9)	(\$11.4)	(\$31.2)
Income and other taxes						
receivable / payable	(7.8)	(26.4)	13.4	(7.8)	(60.9)	8.3
Inventories	(6.6)	(45.5)	(48.8)	(6.6)	11.5	3.4
Prepaid expenses	5.9	(5.2)	8.8	5.9	(31.1)	(25.3)
Accounts payable and accrued liabilities	<u>(30.9)</u>	<u>60.5</u>	<u>32.0</u>	<u>(30.9)</u>	<u>59.2</u>	<u>10.9</u>
	(\$44.3)	\$25.3	(\$12.4)	(\$44.3)	(\$32.7)	(\$50.5)

Cash Flow Used in Investing Activities

Cash flow used in investing activities in the Successor period was \$1,531.6 million, primarily related to the Acquisition. Cash flow used in investing activities for the Predecessor period April 1, 2007 to June 19, 2007 was \$157.8 million. Cash flow used in investing activities for the combined three month period ended June 30,

2007 was \$1,689.4 million as compared to cash used by the Predecessor over the same period in 2006 of \$11.0 million.

Capital expenditures in the Successor period were \$7.5 million and related primarily to #7 Blast Furnace of \$1.8 million and the Algoma Energy Co-generation project of \$2.8 million. Capital expenditures for the Predecessor period April 1, 2007 to June 19, 2007, totaled \$17.7 million, relating primarily to #7 Blast Furnace of \$7.3 million, the Algoma Energy Co-generation project of \$3.0 million and No. 9 Coke Battery of \$3.3 million. Capital expenditures for the combined three month period ended June 30, 2007 were \$25.2 million as compared to the Predecessor over the same period in 2006 of \$11.3 million.

Cash Flow from Financing Activities

Cash flow from financing activities in the Successor period was \$1,565.6 million. Cash flow from financing activities for the Predecessor period April 1, 2007 to June 19, 2007 was a use of cash of \$0.3 million. Cash flow from financing activities for the three month period ended June 30, 2007 was \$1,565.3 million as compared to the Predecessor over the same period in 2006 of a use of cash of \$39.8 million, which was primarily related to share repurchases under the Predecessor's normal course issuer bid.

At the close of the Transaction on June 20, 2007, a shareholder of the Predecessor, holding approximately 2.3 million common shares, exercised their dissent rights in opposition to the Transaction. As a result, an amount due to this shareholder pursuant to the Transaction totaling approximately \$130.8 million was not distributed at close. In July 2007, the shareholder withdrew their dissent and accordingly, the Company paid the amount outstanding related to the Transaction. As of June 30, 2007, amounts outstanding in this regard were classified as a current liability.

Contractual Obligations

(millions of dollars)	Total	Less Than 1			After 5
		Year	1 – 3 Years	4 – 5 Years	Years
Bank indebtedness (1)	\$ 98.6	\$ 98.6	-	-	-
Long-term debt (2)	\$958.8	\$4.8	\$9.6	\$9.6	\$934.8
Operating leases	7.9	1.6	4.7	0.9	0.7
Purchase obligations (2)	150.7	81.4	19.1	18.3	31.9
Other long-term obligations	7.7	0.6	0.2	1.0	5.9

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

(2) assumes June 30, 2007 Canadian/US dollar exchange rate remains constant.

Collective Bargaining Agreements

On July 30th, 2007 the Company reached agreement on new Collective Bargaining Agreements (“CBAs”) with its two unions representing its salaried and hourly unionized workforce that resulted in improvements to salaries and wages, benefits and pension plans. The agreements were ratified by the employees on August 3, 2007.

The CBAs also provided for certain adjustments to the profit sharing calculation to eliminate the impact on operating income of fair value adjustments to inventory, property, plant and equipment, and pension and post-employment benefits that resulted from the Transaction.