

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") provides management's perspective on the financial condition and results of operations of Essar Steel Algoma Inc. (the "Company") based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers the periods from July 1, 2009 to September 30, 2009 and April 1, 2009 to September 30, 2009. The financial results reported in the consolidated financial statements reflect the financial condition and results of operations for the periods July 1, 2009 to September 30, 2009 and April 1, 2009 to September 30, 2009, compared with prior periods of July 1, 2008 to September 30, 2008 and April 1, 2008 to September 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 November 11, 2009 and should be read in conjunction with the September 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 November 11, 2009. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. The unaudited Consolidated Financial Statements for the period ended September 30, 2009 are available on the Essar Steel Algoma Inc. website; www.essarsteelalgoma.com.

Contents	Page No.
Overview of the Business	3
Use of Non-GAAP Financial Measures.....	3
Change in Functional Currency	3
Sales	3
Cost of Sales	4
Administrative and Selling Expenses	4
Amortization	4
Income from Operations	5
Financial Income (Expense)	5
Pension and Post Employment Benefits	5
Provision for Income Taxes	6
Non-controlling Interest.....	6
EBITDA.....	7
Financial Resources and Liquidity	8
Contractual Obligations	9
Financial Position and Liquidity.....	10
Risks and Uncertainties	10
Supplementary Data.....	16

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, 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 September 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. \$1.0707 per U.S. \$1.00 for September 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 second quarter of fiscal 2010 are provided below.

Quarter	Average Rate	Period End Rate
April 1 – June 30, 2009	1.1671	1.1630
July 1 – September 30, 2009	1.0974	1.0707

Sales

Sales for the quarter ended September 30, 2009 were \$388.3 million as compared to \$850.5 million for the corresponding period ended September 30, 2008, which is a decrease of 54.3%. For the six-month period ended September 30, 2009, sales were \$636.6 million as compared to \$1,611.1 million over the same period of the previous year which is a decrease of 60.5%. The lower sales in the second quarter of 2010 were a result of both lower shipments and lower selling prices. Shipments were 656,063 tons in the quarter, an 11.5% decrease from the same three month period in fiscal 2009 due to the economic downturn. For the six-month period ended September 30, 2009, shipments were 1,054,983 tons a 31.6% decrease over the same period of the prior year. Average net sales realization on steel sales (excluding freight) per ton shipped in the second

quarter of 2010 was \$511 compared to \$1,071 per ton for the same three month period of fiscal 2009, reflecting lower steel selling prices worldwide. For the six-month period ended September 30, 2009, average net sales realization was \$528 per ton compared to \$977 for the same period of the prior year.

Non-steel sales were \$19.9 million (2009 – \$15.3 million) in the quarter ended September 30, 2009 and \$27.3 million (2009 - \$25.7 million) for the period April 1, 2009 to September 30, 2009. Non-steel sales include sales of various by-products generated in the manufacturing process as well as the electricity sales of Algoma Energy L.P.

Cost of Sales

Cost of sales excluding amortization for quarter ended September 30, 2009 was \$357.2 million (2009 - \$622.2 million) and cost of sales excluding amortization in the six-month period ended September 30, 2009 was \$622.1 million (2008 - \$1,163.2 million). The cost of steel products sold (excluding amortization, profit-sharing, freight and exceptional items) during the quarter ended September 30, 2009 was \$310.9 million representing a 43.3% decrease from the same period last year. For the period April 1, 2009 to September 30, 2009 the cost of steel products sold was \$549.0 million representing a 46.5% decrease from the same period last year. On a percentage of total sales basis, cost of steel products sold was 80.1% (2008 – 64.5%) for the quarter ended September 30, 2009. For the six-month period ended September 30, 2009 cost of steel sales on a percentage of total sales basis was 86.2% (2008 – 63.7%).

On a per ton basis, cost of steel products sold was \$474 per ton (2008 - \$741) per ton in the quarter ended September 30, 2009. For the six-month period ended September 30, 2009, cost of steel sales was \$520 per ton (2008 - \$666).

There are a few key factors impacting cost of steel products sold in the second quarter of fiscal 2010 compared to the second 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 5% compared to the second quarter of fiscal 2009 and thus certain costs have reduced accordingly. Also, improved pricing of key inputs such as ore, coal, natural gas, scrap, coke and certain alloys has led to a significant reduction in costs compared to the second quarter of fiscal 2009. Although the company achieved lower production in the second quarter of fiscal 2010 compared to the same period in 2009, fixed cost spending during the period was much lower and resulted in a positive impact on the cost of steel products per ton sold in the second quarter of fiscal 2010. The cost of sales has also been negatively impacted by damage to Blast Furnace #7 suffered as a result of a failure in the bustle main.

Since profit sharing expense is calculated on a calendar year basis and due to the operating loss in the second quarter of fiscal 2010, there was no adjustment made (second quarter 2009 – increased by \$16.2 million), resulting in \$nil profit sharing expense in the six-month period ended September 30, 2009 (2008 – \$31.4 million).

Cost of non-steel products was \$13.3 million (2008 - \$15.3 million) in the quarter ended September 30, 2009 and \$20.6 million (2008 - \$25.7 million) for the six-month period ended September 30, 2009.

Administrative and Selling Expenses

Administrative and selling expenses in the quarter ended September 30, 2009 were \$11.4 million (2008 - \$16.6 million) and in the six-month period ended September 30, 2009 were \$24.0 million (six-month period ended September 30, 2008 - \$31.9 million).

Amortization

(in millions of dollars)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Amortization of property, plant and equipment	\$51.1	\$43.9	\$99.3	\$ 90.8

Amortization of identifiable intangible and non-production assets	6.1	6.4	12.6	12.7
Total	\$57.2	\$50.3	\$111.9	\$ 103.5

Amortization expense in the quarter ended September 30, 2009 was \$57.2 million (2008 - \$50.3 million) and in the period of April 1, 2009 to September 30, 2009 was \$111.9 million (2008 - \$103.5 million).

Income (Loss) from Operations

Loss from operations for the quarter ended September 30, 2009 was \$(37.5) million compared to income of \$161.4 million for the quarter ended September 30, 2008. For the six-month period ended September 30, 2009, loss from operations was \$121.4 million compared to income of \$312.5 million for the six-month period ended September 30, 2008. The loss in the current quarter is primarily a result of the continued weakness in the economy.

Financial Income (Expense)

Interest on long-term liabilities for the quarter ended September 30, 2009 was \$22.1 million (2008 - \$16.8 million) and for the six-month period ended September 30, 2009 was \$36.5 million (six month period ended September 30, 2008 - \$32.3 million). Interest on short-term liabilities for the three months ended September 30, 2009 was \$1.2 million (2008 - \$1.6 million) and \$(0.9) million for the six-month period ended September 30, 2009 (six-month period ended September 30, 2008 - \$3.4 million).

Investment income (loss) for the quarter ended September 30, 2009 was \$0.7 million (2008 - \$(7.5) million) and \$0.8 million for the six-month period ended September 30, 2009 (six month period ended September 30, 2008 - \$(7.6) million).

The unrealized foreign exchange loss for the quarter ended September 30, 2009 was \$71.9 million (unrealized foreign exchange gain 2008 - \$42.5 million). For the six-month period ended September 30, 2009 the loss (gain) was \$143.9 million (six-month period ended September 30, 2008 - \$(37.8) million). These unrealized gains and losses reflect the effect of U.S. dollar exchange rate fluctuations on the Company's Canadian dollar denominated monetary assets and liabilities.

Pension and Post-Employment Benefits

(in millions of dollars)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Pension expense	\$ 13.4	\$ 12.4	\$ 25.9	\$ 25.1
Post-employment benefit expense	5.4	7.4	12.7	14.6
Total	\$ 18.8	\$ 19.8	\$ 38.6	\$ 39.7

Pension expense in the quarter ended September 30, 2009 was \$13.4 million (2008 - \$12.4 million) and in the six-month period ended September 30, 2009 was \$25.9 million (2008 - \$25.1 million). Post-employment benefit expense in the quarter ended September 30, 2009 was \$5.4 million (2008 - \$7.4 million) and in the six-month period ended September 30, 2008 was \$12.7 million (2008 - \$14.6 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)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Tax provision at the statutory manufacturing and processing rate of 30.8% (2008 – 31.3%)	\$ (41.7)	\$ 60.1	\$ (93.4)	\$ 101.0
Add (deduct):				
Impact of non-deductible (taxable) portion of exchange loss (gain)	29.9	(13.9)	58.2	(13.0)
Other	(0.8)	(0.4)	(2.2)	(0.4)
Total	\$ (12.6)	\$ 45.8	\$ (37.4)	\$ 87.6

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 provincial non-capital loss carry forwards, but fully utilized these losses by the third quarter of 2005.

In the quarter ended September 30, 2009, the Canada Revenue Agency (“CRA”) concluded its review of the Company's assignment of \$160 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the 2002 financial reorganization. The CRA reduced the fair market value assigned to the common shares to \$126.4 million and, as a result, reassessed the Company's 2002 to 2006 taxation years to reflect a reduced amount of available non-capital losses. The Company has filed an objection to the CRA reassessments and intends to strongly defend its position with respect to the valuation. No provision has been made in the consolidated statement of income (loss) for the income taxes or interest associated with the reassessments. The Company has paid the CRA reassessments which totaled \$2 million including \$0.5 million of interest and has reflected this amount as a recoverable netted with income and other taxes payable in the consolidated balance sheet. Reassessments have not yet been received from provincial tax authorities but are expected to be \$5 million plus an estimated \$2 million of interest.

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 expires 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 2008, the Company has filed, or intends to file, scientific research and experimental development claims with CRA totaling \$318.5 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 \$63.7 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. Other than 2002, the claims have not had final audit assessment. The CRA has denied \$8.2 million of the claim for 2002 as filed by the Company. The Company has objected to the assessment.

The Company has recognized the portion of the related tax benefit that management believes meets the threshold of “reasonable assurance” of realization. The total tax benefit recognized to date is \$31.9 million. The determination of the amount of tax benefit to recognize requires judgment, and is subject to change based on CRA's audit of the claims which would result in adjustments to income.

Non-controlling Interest

The Company has a 50.1% interest in Algoma Energy L.P.,(the “CoGen Subsidiary”) which became operational on June 13, 2009. The non-controlling interest represents the 49.9% share of the CoGen

Subsidiary profit for the quarter ended September 30, 2009. The company intends to sell its 50.1% interest in the CoGen Subsidiary.

EBITDA (i)

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

(in millions of dollars)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Net income (loss)	\$ (122.8)	\$ 146.0	\$ (265.8)	\$ 235.0
Amortization	57.2	50.3	111.9	103.5
Interest expense/income	23.3	18.4	35.6	35.7
Income taxes	(12.6)	45.8	(37.4)	87.6
Foreign exchange loss (gain)	71.9	(42.5)	143.9	(37.8)
Change in the fair value of embedded derivatives	-	1.2	-	(0.4)
Investment income	0.7	(7.5)	0.8	(7.6)
Exceptional items	-	31.5	10.0	31.5
Non-controlling interest	2.0	-	1.5	-
EBITDA	\$19.7	\$243.2	\$0.5	\$447.5

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

During the six-month period of April 1, 2009 to September 30, 2009, the Company recorded exceptional charges amounting to \$10.0 million primarily relating to inventory writedowns (\$31.5 million for the period April 1, 2008 to September 30, 2008).

EBITDA for the quarter ended September 30, 2009 was \$19.7 million (2008 - \$243.2 million) and in the six-month period ended September 30, 2009 was \$0.5 million (2008 - \$447.5 million). The decline from the corresponding quarter ended September 30, 2008 is mainly attributable to lower shipments and lower selling prices due to continued weakness in the economy.

Financial Resources and Liquidity
Summary of Cash Flows

(in millions of dollars)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Operating activities:				
Cash flow from operations before changes in operating working capital	\$ 1.1	\$ 153.6	\$ (18.4)	\$ 287.1
Changes in non-cash operating working capital	(92.0)	(15.9)	(82.0)	(190.7)
	\$ (91.0)	\$ 137.7	\$ (100.4)	\$ 96.4
Investing activities:				
Acquisition of property, plant and equipment	\$ (21.3)	\$ (57.0)	\$ (51.7)	\$ (114.2)
Proceeds on sale of property, plant and equipment	-	-	-	0.3
Acquisition of intangible asset	-	(1.5)	-	(1.5)
Loan receivable from related party	(3.4)	(14.4)	(3.5)	(14.4)
Restricted Cash	2.1	1.3	1.9	5.3
	\$ (22.6)	\$ (71.6)	\$ (53.3)	\$ (124.5)
Financing activities:				
Bank indebtedness, net	\$ 120.7	\$ (26.9)	\$ 108.9	\$ 87.6
Repayment of bank term loan	-	(0.8)	-	(0.8)
Redemption of 9.875% notes payable	-	-	-	(19.7)
Return of capital	-	(41.4)	-	(41.4)
Other	(0.1)	(0.1)	-	(0.2)
	\$ 120.6	\$ 69.2	\$ 108.9	\$ 25.5
Effect of exchange rate changes on cash	(0.2)	0.1	(5.0)	0.4
Change in cash and cash equivalents during the period	\$ 6.9	\$ (3.0)	\$ (49.8)	\$ (2.2)

Cash Flow From Operating Activities

Cash gain from operations for the quarter ended September 30, 2009, before changes in non-cash operating working capital, was \$1.1 million compared to a cash flow of \$153.6 million for the quarter ended September 30, 2008. Cash flow from operations before changes in non-cash operating working capital for the six-month period ended September 30, 2009 was \$(18.4) million compared to \$287.1 million for the six-month period ended September 30, 2008. The loss in the current quarter results primarily from the continued weakness in the economy.

Changes in non-cash operating working capital in the quarter ended September 30, 2009 was a use of cash of \$92.0 million compared to \$15.9 million in the quarter ended September 30, 2008. For the six-month period ended September 30, 2009, changes in non-cash working capital was a use of cash of \$82.0 million compared to \$190.7 million for the six-month period ended September 30, 2008. The changes in non-cash operating working capital were comprised of the following:

(in millions of dollars)	July 1 to September 30, 2009	July 1 to September 30, 2008	April 1 to September 30, 2009	April 1 to September 30, 2008
Accounts receivable	\$ (83.5)	\$ (28.2)	\$ (38.3)	\$ (174.8)
Inventories	(37.2)	(67.6)	(49.1)	(180.8)
Prepaid expenses	(14.7)	8.6	28.6	0.5
Accounts payable and accrued liabilities	56.1	15.5	24.4	64.8
Income and other taxes receivable / payable	(12.7)	55.8	(47.6)	99.6
Total	\$ (92.0)	\$ (15.9)	\$ (82.0)	\$ (190.7)

The increase of \$83.5 million in accounts receivable was primarily due to an increase in net sales realizations and sales volume. The increase in inventories of \$37.2 million in the quarter was mainly due to seasonal increases in raw material inventories prior to winter and an increase in steel inventories. The increase in prepaid expenses of \$14.7 million was primarily due to a payment made in advance under the Company's iron ore contract. The increase in accounts payable and accrued liabilities of \$56.1 million was primarily due to an increase in all levels of activity. The increase in income and other taxes payable of \$12.7 million was primarily due to the tax recovery as a result of the loss during the quarter.

Cash Flow Used in Investing Activities

Capital expenditures in the quarter ended September 30, 2009 totaled \$21.3 million, compared to \$57.0 million for the period ended September 30, 2008. Expenditures in the quarter ended September 30, 2009 included \$12.5 million on the cogeneration facility. Expenditures in the quarter ending September 30, 2008 included \$14.9 million on the cogeneration facility, \$6.1 million on casthouse emission controls for #7 blast furnace and \$16.9 million on the commissioning of #6 blast furnace.

Capital expenditures for the six-month period ended September 30, 2009 totaled \$51.7 million, compared to \$114.2 million in the six-month period ended September 30, 2008.

Cash Flow from Financing Activities

Financing activities in the quarter ended September 30, 2009 included an increase in bank indebtedness of \$120.7 million. Financing activities in the quarter ended September 30, 2008 included a decrease in bank indebtedness of \$26.9 million and a return of capital to the shareholders of \$41.4 million.

Financing activities in the six-month period ended September 30, 2009 included an increase in bank indebtedness of \$108.9 million. Financing activities for the six-month period ended September 30, 2008 included an increase in bank indebtedness of \$87.6 million, redemption of 9.875% notes payable of \$19.7 million and a return of capital to the shareholders of \$41.4 million.

Contractual Obligations

(millions of dollars)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Bank indebtedness (1)	\$ 177.9	177.9	-	-	-
Long-term debt (2) (3)	\$ 775.6	26.9	6.8	326.8	415.1
Operating leases	\$ 12.3	4.7	5.6	1.6	0.4
Purchase obligations (2)	\$ 1,942.5	404.8	491.1	491.1	555.5
AELP purchase obligations (2)	\$ 2.7	2.7	-	-	-
Other obligations	\$ 8.3	1.8	2.2	1.8	2.5

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

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

(3) Includes a fee equal to 7% of the amount of Term Loan outstanding on December 31, 2009, as per the terms of the Second Amendment to the Term Loan Agreement.

Financial Position and Liquidity

At September 30, 2009, the Company had \$59.2 million of unused availability under its Revolving Credit Facility. To access the Revolving Credit Facility, the Company is required to either meet a fixed charge coverage ratio test or maintain minimum excess availability of 10% of the Revolving Credit Facility commitment of US\$425 million (the "Commitment"). Presently, the Company will be required to maintain minimum excess availability equal to 10% of the Commitment, in order to draw on the Revolving Credit Facility. Based on the Company's current operations, it believes that cash on hand, together with cash flows from operations, borrowings under its Revolving Credit Facility, proceeds from an insurance claim relating to a bustle main failure in the Company's Blast Furnace #7 and proceeds from a potential sale of the remaining 50.1% equity interest in the CoGen Subsidiary, will be adequate to meet the Company's working capital, capital expenditures, debt service and other cash requirements for the next twelve months.

The Company is in compliance with the covenant requirements of the existing debt agreements at September 30, 2009. The Company has been compliant with the covenants to date, however, in view of the prevailing market conditions; the Company felt it prudent to seek relaxation of the financial covenants in the Term Loan.

On September 9, 2009, lenders holding a majority of the Term Loan approved a permanent amendment to the Term Loan. Among other things, the amendment waives compliance with maximum leverage and minimum interest coverage ratios for a four quarter holiday period beginning September 30, 2009 through the quarter ended June 30, 2010 with revised covenant levels reinstated thereafter. The amendment also amends the definition of 'Permitted CoGen Sale' to allow a sell of the balance 50.1% of Equity Interest in CoGen Subsidiary as a 'Permitted CoGen Sale'. The required lenders also approved a technical amendment to the Term Loan on November 10, 2009 further clarifying the definition of 'Permitted CoGen Sale'.

Effective November 10, 2009, Revolving Credit Facility lenders have approved an amendment to the definition of 'Permitted CoGen Sale' allowing a sale of the balance 50.1% of Equity Interest in CoGen Subsidiary as a 'Permitted CoGen Sale'.

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.

The Company's ability to make scheduled payments of principal of, to pay interest on and to refinance its indebtedness, to comply with the financial covenants under the Company's Term Loan, and to fund its other liquidity requirements will depend on its ability to generate cash in the future, which is subject to a number of factors that are beyond the Company's control, including general adverse economic and industry conditions and the ability to sell the remaining 50.1% equity interest in the CoGen Subsidiary. The Company cannot assure you that its business will generate cash flows from operations, that it will be able to sell the 50.1% of CoGen Subsidiary, that its insurance claim in connection with a bustle main failure at Blast Furnace #7 will be successful, or that future borrowings will be available under the Revolving Credit Facility in an amount sufficient to enable the Company to service its indebtedness and to fund its other liquidity needs.

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.

Variability of Financial Results

The Company's financial results may fluctuate substantially, not only due to the cyclical nature 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 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 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. The current economic situation has negatively impacted the Company's volume of shipments and selling prices. If the situation persists or deteriorates further, it will have an adverse impact on the business. In addition, many of the customers are also affected by such economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to 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 re-negotiated. 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 September 30, 2009 to fund these benefits was \$4.2 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. Due to the current economic situation, all previously planned capital expenditures are being reviewed and only essential expenditures will be completed.

The Company may not generate sufficient future operating cash flow and external financing sources may not be available in an amount sufficient to enable 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 that require the Company to maintain a maximum leverage ratio and a minimum EBITDA to interest expense ratio. In addition, the facilities 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. The Company's ability to comply with these restrictions may be affected by events beyond its control. The Company may not achieve operating results that will permit it to meet these restrictive covenants or may need to take business actions prohibited by these covenants. These covenants may also limit the Company's ability to obtain additional or more favourable financing. In addition, substantially all of the Company's receivables and inventories have been pledged to secure its Revolving Facility.

Labour Matters

The Company has approximately 3,316 active employees, of which approximately 3,200, representing 96.5% 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.

On September 24, 2009, the Company's Blast Furnace #7 suffered damage as a result of a failure in the bustle main. On October 14, Blast Furnace #7 was restarted. Blast Furnace #7 produced usable hot metal starting October 21, and currently is back to normal operation.

The Company has filed a preliminary claim with its insurance provider related to expected expenses to be incurred to repair the blast furnace and for the expected loss due to business interruption. The Company has recorded a \$7.0 million receivable, net of the \$7.5 million insurance deductible, for the loss as of September 30, 2009. The Company's insurance provider is currently in the process of reviewing the preliminary claim.

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.

Supplementary Data

SELECTED QUARTERLY INFORMATION

For the quarter ended	Sept 30, 2009	June 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Sales	\$388.3	\$248.3	\$402.8	\$533.6	\$850.5	\$760.6	\$ 502.3	\$ 514.8
EBITDA (i)	19.7	(19.2)	(10.1)	16.0	243.2	204.3	71.4	48.9
Income (loss) from operations	(37.5)	(83.9)	(85.5)	(156.9)	161.4	151.1	20.5	(4.9)
Income (loss) before income taxes	(135.4)	(167.8)	(41.0)	(69.1)	191.8	130.8	(27.3)	(21.1)
Net income (loss)	(122.8)	(143.0)	(3.5)	(14.2)	146.0	89.0	\$ (25.3)	\$ 20.1

(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	September 30, 2009	June 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Sheet	581	326	435	385	569	633	534	628
Plate	75	64	85	113	165	167	149	131
Slabs	-	8	4	10	7	-	-	-
Total	656	398	524	508	741	800	683	759