

**ESSAR Steel Algoma Inc.**
**Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) and Retained Earnings (Deficit)**
*(Unaudited)*

Expressed in millions of Canadian dollars

	Three months ended September 30 2009	Six months ended September 30 2009	Three months ended September 30 2008	Six months ended September 30 2008
<b>Sales</b>	<b>\$ 388.3</b>	<b>\$ 636.6</b>	<b>\$ 850.5</b>	<b>\$ 1,611.1</b>
<b>Operating expenses</b>				
Cost of sales excluding amortization	\$ 357.2	\$ 622.1	622.2	1,163.2
Amortization	51.1	99.3	43.9	90.8
	408.3	721.4	666.1	1,254.0
Administrative and selling	11.4	24.0	16.6	31.9
Amortization of intangible assets and non-production assets	6.1	12.6	6.4	12.7
	425.8	758.0	689.1	1,298.6
<b>Income (loss) from operations</b>	<b>(37.5)</b>	<b>(121.4)</b>	<b>161.4</b>	<b>312.5</b>
<b>Financial expense (income)</b>				
Interest on long-term liabilities	22.1	36.5	16.8	32.3
Change in the fair value of embedded derivatives (note 7)	-	-	1.2	(0.4)
Interest on short-term liabilities	1.2	(0.9)	1.6	3.4
Foreign exchange loss (gain)	71.9	143.9	(42.5)	(37.8)
Other (income) expense	0.7	0.8	(7.5)	(7.6)
	95.9	180.3	(30.4)	(10.1)
Non-controlling interest	2.0	1.5	-	-
Income (loss) before income taxes	(135.4)	(303.2)	191.8	322.6
<b>Income taxes (note 11)</b>				
Current (recovery)	(8.7)	(33.5)	58.7	107.7
Future expense (recovery)	(3.9)	(3.9)	(12.9)	(20.1)
	(12.6)	(37.4)	45.8	87.6
<b>Net income (loss) for the period</b>	<b>\$ (122.8)</b>	<b>\$ (265.8)</b>	<b>\$ 146.0</b>	<b>\$ 235.0</b>
Unrealized gain (loss) on foreign exchange translation	(60.7)	# (136.9)	33.2	30.1
<b>Comprehensive income (loss) for the period</b>	<b>\$ (183.5)</b>	<b># \$ (402.7)</b>	<b>\$ 179.2</b>	<b>\$ 265.1</b>
<b>Retained earnings (deficit)</b>				
Balance, beginning of period	\$ 62.9	\$ 205.9	\$ 77.6	\$ (11.4)
Net income (loss) for the period	(122.8)	(265.8)	146.0	235.0
Balance, end of period	\$ (59.9)	\$ (59.9)	\$ 223.6	\$ 223.6

See accompanying notes to the consolidated financial statements

**ESSAR Steel Algoma Inc.**  
**Interim Consolidated Balance Sheets**

(Unaudited)

Expressed in millions of Canadian dollars

	September 30 2009	March 31 2009
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 11.1	\$ 60.9
Restricted cash	-	2.2
Accounts receivable (note 13)	183.5	168.1
Receivable from non-controlling interest (note 13)	18.5	-
Loan receivable from related party (note 13)	15.3	17.6
Inventories (note 5)	280.3	269.5
Prepaid expenses	17.2	50.1
Future income taxes (note 11)	3.3	5.5
<b>Total current assets</b>	<b>529.2</b>	<b>573.9</b>
Property, plant and equipment, net	1,718.2	2,117.6
Assets held for sale (note 13)	214.8	218.6
Intangible assets, net	107.6	133.6
Other assets	2.8	3.9
	<b>\$ 2,572.6</b>	<b>\$ 3,047.6</b>
<b>Liabilities and shareholder's equity</b>		
<b>Current</b>		
Bank indebtedness (note 6)	\$ 177.9	\$ 78.5
Accounts payable and accrued liabilities	180.9	179.2
Accounts payable related to assets held for sale (note 13)	12.2	19.6
Income and other taxes payable (note 11)	7.6	62.1
Accrued pension liability and post-employment benefit obligation (note 8)	76.0	70.9
Payable to ESSAR Steel Holdings Limited (note 13)	4.3	5.0
Payable to related parties (note 13)	-	2.0
Current portion of long-term debt (note 7)	3.4	4.1
Future income tax liability (note 11)	3.2	3.2
<b>Total current liabilities</b>	<b>465.5</b>	<b>424.6</b>
Long-term debt (note 7)	736.7	866.3
Accrued pension liability (note 8)	78.5	81.7
Accrued post-employment benefit obligation (note 8)	399.6	396.5
Other long-term liabilities	7.8	10.1
Future income tax liabilities (note 11)	240.7	242.4
	<b>1,463.3</b>	<b>1,597.0</b>
<b>Non-controlling interest (note 13)</b>	<b>100.9</b>	<b>80.4</b>
Commitments and contingencies (note 12)		
<b>Shareholder's equity</b>		
Capital stock (note 10)	490.4	490.4
Contributed surplus	55.5	55.5
Accumulated other comprehensive income (note 9)	56.8	193.7
Retained earnings (deficit)	(59.9)	205.9
	<b>542.8</b>	<b>945.5</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 2,572.5</b>	<b>\$ 3,047.5</b>

See accompanying notes to the consolidated financial statements

**ESSAR Steel Algoma Inc.**  
**Interim Consolidated Statements of Cash Flows**

(Unaudited)

Expressed in millions of Canadian dollars

	Three months ended September 30 2009	Six months ended September 30 2009	Three months ended September 30 2008	Six months ended September 30 2008
<b>Operating activities</b>				
<b>Net income (loss) for the period</b>	\$ (122.8)	\$ (265.8)	\$ 146.0	\$ 235.0
Adjustments and items not affecting cash:				
Amortization	57.2	111.9	50.3	103.5
Future income tax expense (recovery)	(0.9)	0.5	(12.7)	(20.1)
Pension expense in excess of current funding (current funding in excess of expense)	0.8	0.4	0.4	(8.3)
Unrealized foreign exchange loss (gain) on pension expense	11.8	22.9	(5.7)	(4.8)
Post-employment benefit expense in excess of payments	1.2	4.5	3.4	7.0
Unrealized foreign exchange loss (gain) on post-employment expense	36.0	70.0	(17.5)	(14.8)
Change in the fair value of embedded derivatives	-	-	1.2	(0.4)
Loss on disposal of property, plant and equipment	0.1	0.7	0.1	0.3
Unrealized foreign exchange loss (gain) on future income tax	20.2	40.6	(12.6)	(10.6)
Gain on redemption of 9.875% notes	-	-	-	(0.1)
Other	(2.5)	(4.1)	0.7	0.4
	1.1	(18.4)	153.6	287.1
Net change in non-cash operating working capital*	(92.0)	(82.0)	(15.9)	(190.7)
	(91.0)	(100.4)	137.7	96.4
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(21.3)	(51.7)	(57.0)	(114.2)
Proceeds on sale of property, plant and equipment	-	-	-	0.3
Acquisition of intangible asset	-	-	(1.5)	(1.5)
Restricted cash	2.1	1.9	1.3	5.3
Loan receivable from related party (note 13)	(3.4)	(3.5)	(14.4)	(14.4)
	(22.6)	(53.3)	(71.6)	(124.5)
<b>Financing activities</b>				
Bank indebtedness, net	120.7	108.9	(26.9)	87.6
Return of capital	-	-	(41.4)	(41.4)
Repayment of bank term loan	-	-	(0.8)	(0.8)
Redemption of 9.875% notes payable	-	-	-	(19.7)
Other	(0.1)	-	(0.1)	(0.2)
	120.6	108.9	(69.2)	25.5
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(0.2)	(5.0)	0.1	0.4
<b>Cash and cash equivalents</b>				
Change during the period	6.8	(49.8)	(3.0)	(2.2)
Balance, beginning of period	4.3	60.9	10.7	9.9
<b>Balance, end of period</b>	<u>\$ 11.1</u>	<u>\$ 11.1</u>	<u>\$ 7.7</u>	<u>\$ 7.7</u>
<b>*Net change in non-cash operating working capital</b>				
Accounts receivable	\$ (83.5)	\$ (38.3)	\$ (28.2)	\$ (174.8)
Income and other taxes receivable/payable	(12.7)	(47.6)	55.8	99.6
Inventories	(37.2)	(49.1)	(67.6)	(180.8)
Prepaid expenses	(14.7)	28.6	8.6	0.5
Accounts payable and accrued liabilities	56.1	24.4	15.5	64.8
	<u>\$ (92.0)</u>	<u>\$ (82.0)</u>	<u>\$ (15.9)</u>	<u>\$ (190.7)</u>
<b>Supplemental cash flow information</b>				
Income taxes paid	\$ 2.0	\$ 2.0	\$ 1.9	\$ 4.8
Interest paid	<u>\$ 5.3</u>	<u>\$ 28.4</u>	<u>\$ 6.1</u>	<u>\$ 38.3</u>

See accompanying notes to the consolidated financial statements

Interim Consolidated Financial Statements

**ESSAR Steel Algoma Inc.**

(Unaudited)

September 30, 2009

**ESSAR Steel Algoma Inc.**

**NOTES TO INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

(Unaudited)

[Expressed in millions of Canadian dollars, except as noted]

September 30, 2009

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared using the same accounting principles and methods as were used for the consolidated financial statements for the period ended March 31, 2009. Management is required to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements. Management believes that the estimates are reasonable; however, actual results could differ from those estimates. The disclosures in these interim consolidated financial statements do not meet all disclosure requirements of Canadian generally accepted accounting principles ["GAAP"] for annual financial statements and should be read in conjunction with the consolidated financial statements of ESSAR Steel Algoma Inc. [the "Company"] for the period ended March 31, 2009 and the notes thereto.

These interim consolidated financial statements have been prepared on the "going concern" basis which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company's functional currency is the United States dollar ["U.S. dollar"] which reflects the Company's operational exposure to the U.S. dollar. The Company uses the Canadian dollar as its reporting currency. In accordance with Canadian GAAP, all amounts presented for the period from April 1, 2009 to September 30, 2009 are translated into 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 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; Cdn. \$1.0642 per U.S. \$1.00 for September 30, 2008]. Equity transactions have been translated at historical rates. The resulting net translation adjustment has been recorded in other comprehensive income or loss.

**2. CHANGE IN ACCOUNTING POLICY**

In February 2008, the Canadian Institute of Chartered Accountants approved Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company does not expect that the adoption of this new standard will have a material impact on its interim consolidated financial statements.

**ESSAR Steel Algoma Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
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September 30, 2009

**3. NATURE OF OPERATIONS**

The Company is an integrated steel producer with its active operations located entirely in Canada. The Company produces sheet and plate products that are sold primarily in Canada and the United States. The Company also has a subsidiary which generates and sells electricity to the Ontario Power Authority ("OPA"). The subsidiary began operations on June 13, 2009.

**4. CHANGE IN SIGNIFICANT ACCOUNTING POLICY**

**Revenue recognition**

Revenue, generated by the Company's subsidiary, from the sale of electricity will be recorded at the time power is provided based upon output delivered at rates specified under contract terms.

**5. INVENTORIES**

Inventory write-downs during the period from July 1, 2009 to September 30, 2009 amounting to \$2.2 million and April 1, 2009 to September 30, 2009 of \$12.2 million [period from July 1, 2008 to September 30, 2008 amounting to \$24.5 million and April 1, 2008 to September 30, 2008 - \$24.5 million] were recorded to adjust inventories to net realizable value and recognized as an expense in cost of sales during the period. There have been no reversals in the period of any previously recorded inventory write-downs.

**6. BANKING FACILITIES**

On June 20, 2007, the Company entered into a five-year Revolving Credit Agreement ["Agreement"]. The Agreement provides the Company with a revolving credit facility ["Revolving Facility"] equal to the lesser of U.S. \$425 million and a borrowing base determined by the levels of the Company's accounts receivable and inventories, less certain reserves. The Revolving Facility is secured by substantially all of the Company's assets. Under the General Security Agreement, the Revolving Facility has priority claim on the accounts receivable and inventories of the Company, while the Term Loan Credit Facility ["the Term Loan"] has priority claim on the rest of the Company's assets.

Borrowings can be made in either Canadian or U.S. dollars. Canadian borrowings bear interest at either the Canadian bankers' acceptance rate plus a margin of 1.25% - 2.0% or Canadian prime rate plus a margin of 0.25% - 1.0%. U.S. borrowings bear interest at either the London Inter-Bank Overnight Rate ["LIBOR"] plus a margin of 1.25% - 2.0%, or the lender's corporate base rate plus a margin of 0.25% - 1.0%. The applicable margin is dependent on the average excess availability under the Revolving Facility for the preceding fiscal quarter.

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The Revolving Facility also provides for payment to the lenders of an unused line fee on the average daily excess availability of 0.25% per annum and a letter of credit fee ranging from 1.25% to 2.00%, depending on the average excess availability under the Revolving Facility. A commitment fee of 0.25% of the full amount of the Revolving Facility and a funding fee of 0.75% of the full amount of the Revolving Facility fees totalling \$4.7 million were incurred to establish the Revolving Facility and are being amortized to expenses using the effective interest rate method.

At September 30, 2009, there was \$177.9 million [March 31, 2009 - \$78.5 million] outstanding under the Revolving Facility and \$59.2 million [March 31, 2009 - \$211.1 million] of unused availability after taking into account \$18.4 million [March 31, 2009 - \$19.9 million] of outstanding letters of credit.

Effective November 10, 2009, Revolving 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'.

Under the terms of the Facility Agreement, the Company is required to be in compliance with various restrictive covenants which, among other things, limit the incurrence of additional indebtedness, limit investments, capital expenditures and dividends and restrict transactions with affiliates, permitted acquisitions, asset sales, liens and encumbrances and other matters customarily restricted in such agreements. The Company was in compliance with the covenant requirements of the Facility Agreement at September 30, 2009.

**7. LONG-TERM DEBT**

On June 20, 2007, the Company entered into a U.S. \$450.0 million Term Loan. The Term Loan is secured by substantially all of the Company's assets and contains various restrictive covenants including limits on leverage and interest coverage ratios. 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 these terms.

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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 2009 through the quarter ending 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'.

	<b>September 30, 2009</b>	<b>March 31, 2009</b>
	<b>\$</b>	<b>\$</b>
Term Loan denominated in U.S. dollars, bearing interest at the higher of LIBOR or 1.5% plus a margin of 4.0% - 8.0% dependent on leverage ratio under the Term Loan for the preceding 12 months, due June 15, 2013	337.0	399.2
Senior Notes denominated in U.S. dollars, bearing interest at 9.875%, due June 15, 2015	415.1	489.3
	<b>752.1</b>	<b>888.5</b>
Less unamortized financing costs	12.0	18.1
	<b>740.1</b>	<b>870.4</b>
Less current portion	3.4	4.1
	<b>736.7</b>	<b>866.3</b>

The aggregate amount of contractual maturity repayments in each of the next five fiscal years and thereafter at current exchange rates is as follows:

	<b>\$</b>
2010	3.4
2011	3.4
2012	3.4
2013	3.4
2014	323.4
Thereafter	415.1
	<b>752.1</b>

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The Term Loan has a remaining principal amount of U.S. \$314.8 million [Cdn. \$337.1 million]. It is repayable in quarterly payments of U.S. \$0.8 million with the balance of U.S. \$302.8 million due at maturity.

The amended Term Loan was considered an extinguishment of debt for accounting purposes due to the substantial modification and accordingly, \$6.6 million of unamortized financing costs were expensed to interest on long-term liabilities in the quarter.

Unamortized financing costs related to the amended Term Loan, totalling U.S. \$2.1 million [Cdn. \$2.3 million], and the Senior Notes totalling \$18.1 million, are recorded as a component of the carrying amount of the related debt and are amortized to income using the effective interest rate method. The unamortized balance at September 30, 2009 was \$12.0 million.

During fiscal 2009, the Company purchased and cancelled U.S. \$65.3 million of Senior Notes [period from July 1, 2008 to September 30, 2008 - nil, period from April 1, 2008 to September 30, 2008 - \$20.0 million], leaving a remaining balance of U.S. \$384.7 million. The Senior Notes are unsecured and are subordinated in right of payment to all existing and future secured indebtedness of the Company to the extent of the assets securing such indebtedness.

Subject to certain conditions, at any time prior to June 15, 2010, the Company may redeem up to 35% of the principal amount of the Senior Notes at a redemption price of 109.875% of the principal amount plus accrued and unpaid interest with the proceeds of a public equity offering. At any time prior to June 15, 2011, the Company may also redeem all or a part of the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus accrued and unpaid interest and a specified premium. On or after June 15, 2011, the Company may redeem all or a part of the Senior Notes at the following redemption prices, plus accrued and unpaid interest:

	%
2011	104.938
2012	102.469
2013	<u>100.000</u>

Under Canadian GAAP, the prepayment options in the Senior Notes are required to be accounted for as embedded call option derivative instruments, which require bifurcation and are accounted for at fair value. The embedded call options were included in the carrying amount of the Senior Notes, which had an estimated fair value of \$4.9 million on issuance of the Senior Notes, have an estimated fair value of nil at September 30, 2009 and had a fair value of nil at March 31, 2009.

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September 30, 2009

**8. PENSION AND OTHER POST-EMPLOYMENT BENEFITS**

Pension expense and funding for the Company for the period from July 1, 2009 to September 30, 2009 was \$13.4 million and \$12.7 million, respectively and April 1, 2009 to September 30, 2009 was \$25.9 million and \$25.5 million, respectively [period from July 1, 2008 to September 30, 2008 - \$12.4 million and \$12.0 million, respectively and period from April 1, 2008 to September 30, 2008 - \$25.1 million and \$33.4 million, respectively].

Post-employment benefits expense and funding for the Company for the period from July 1, 2009 to September 30, 2009 was \$5.4 million and \$4.2 million, respectively and April 1, 2009 to September 30, 2009 was \$12.7 million and \$8.2 million, respectively [period from July 1, 2008 to September 30, 2008 - \$7.4 million and \$4.0 million, respectively and period from April 1, 2008 to September 30, 2008 - \$14.6 million and \$7.6 million, respectively].

**9. ACCUMULATED OTHER COMPREHENSIVE INCOME**

	<b>September 30, 2009</b>	<b>March 31, 2009</b>
	<b>\$</b>	<b>\$</b>
<b>Balance, beginning of period</b>	<b>193.7</b>	<b>—</b>
Other comprehensive income for the period		
Unrealized gain (loss) on foreign exchange translation	<b>(136.9)</b>	<b>193.7</b>
<b>Balance, end of period</b>	<b>56.8</b>	<b>193.7</b>

**ESSAR Steel Algoma Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**10. CAPITAL STOCK**

**Authorized**

Unlimited common shares

The following table summarizes the capital stock transactions of the Company since incorporation on April 12, 2007:

	<b>Common shares issued and outstanding</b>	
	<b># shares</b>	<b>Stated capital \$</b>
Common shares issued on incorporation	10,000	—
Common shares issued during the period from April 12, 2007 to March 31, 2008	500,000,000	531.8
Balance, March 31, 2008 and June 30, 2008	500,010,000	531.8
Return of capital	—	41.4
<b>Balance, March 31, 2009 and September 30, 2009</b>	<b>500,010,000</b>	<b>490.4</b>

**11. INCOME TAXES**

The following table details the variation between the Company's provision for (recovery of) income taxes and the statutory income tax rate:

	<b>July 1, 2009 to September 30, 2009 \$</b>	<b>April 1, 2009 to September 30, 2009 \$</b>	<b>July 1, 2008 to September 30, 2008 \$</b>	<b>April 1, 2008 to September 30, 2008 \$</b>
Provision for (recovery of) income taxes at the statutory manufacturing and processing rate of 30.8% [March 31, 2009 - 31.3%]	(41.7)	(93.4)	60.1	101.0
Increase (decrease) in income taxes resulting from:				
Impact of non-deductible (taxable) foreign exchange loss (gain)	29.9 (0.8)	58.2 (2.2)	(13.9) (0.4)	(13.0) (0.4)
Other	(12.6)	(37.4)	45.8	87.6

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The Company's income tax loss carryforwards were reduced by approximately \$180 million under the 2002 financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of federal and provincial non-capital loss carryforwards, but fully utilized these losses by the third quarter of 2005.

In the quarter, the Canada Revenue Agency ["CRA"] concluded its review of the Company's assignment of \$160 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the 2002 financial reorganization. The CRA reduced the fair market value assigned to the common shares to \$126.4 million and, as a result, reassessed the Company's 2002 to 2006 taxation years to reflect a reduced amount of available non-capital loss carryforwards. The Company 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 interim consolidated statement of income (loss) for the income taxes or interest associated with the reassessments. The Company has paid the CRA reassessments which totalled \$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 interim 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 expires in 2021 and U.S. \$36.4 million expires in 2022.

For the calendar and taxation years 2002 to 2008, the Company has filed, or intends to file, scientific research and experimental development claims with the CRA totalling \$318.5 million. The 2002 claim is currently under audit by the 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 for 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 the CRA's audit of the claims which would result in adjustments to income.

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**12. COMMITMENTS AND CONTINGENCIES**

From time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to have a material adverse effect on these interim consolidated financial statements. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits, may receive assessments and reassessments.

Under the terms of the Second Amendment to the Term Loan Agreement executed on September 9, 2009, the Company has agreed to pay a fee equal to 7% of the amount of loans outstanding on December 31, 2009 if prepayments of U.S. \$50 million in aggregate have not been made between September 9, 2009 and December 31, 2009.

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 claims related to losses incurred up to September 30, 2009. The Company's insurance provider is currently in the process of reviewing the preliminary claim.

**13. RELATED PARTY TRANSACTIONS**

The Company's major shareholder, ESSAR Steel Holdings Ltd., and its commonly controlled affiliates are related parties.

The balance as at September 30, 2009 in the payable to ESSAR Steel Holdings Ltd. is \$4.3 million [March 31, 2009 - \$5.0 million].

The Company had sales to related parties of U.S. \$23.4 million for the period from July 1, 2009 to September 30, 2009 and \$26.2 million for the period April 1, 2009 to September 30, 2009 was U.S. [period from July 1, 2008 to September 30, 2008 - nil and period from April 1, 2008 to September 30, 2008 - nil]. The balance receivable from related parties included in accounts receivable as at September 30, 2009 is \$13.0 million [March 31, 2009 - nil].

**ESSAR Steel Algoma Inc.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

[Expressed in millions of Canadian dollars, except as noted]

September 30, 2009

The Company loaned U.S. \$13.5 million to a company under common control. The balance as at September 30, 2009 is \$15.3 million [March 31, 2009 - \$17.6 million].

The assets and liabilities of Algoma Energy L.P. are shown as held for sale in the interim consolidated balance sheet and the 49.9% interest is shown as non-controlling interest of \$100.9 million [March 31, 2009 - \$80.4 million]. The amount of the non-controlling interest's share of capital expenditures that are being funded by the Company is recorded as receivable from non-controlling interest in the amount of \$18.5 million.

**14. COMPARATIVE INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's interim consolidated financial statements.