PROPOSED NEW FUNDING RULES FOR ESSAR STEEL ALGOMA INC.'S PENSION PLANS

SUPPLEMENTARY INFORMATION FOR THE MEMBERS OF THE ESSAR STEEL ALGOMA INC. PENSION PLAN FOR HOURLY EMPLOYEES

This document should be read along with the accompanying document entitled "Proposed New Funding Rules for Essar Steel Algoma Inc.'s Pension Plans – General Information." This document contains additional information on the proposed new funding rules that is specifically for members of the Essar Steel Algoma Inc. Pension Plan for Hourly Employees, registration number 1079904 (the "**Plan**"). Some of this information is of a complex actuarial and financial nature.

Please read this document carefully.

1. FINANCIAL SITUATION OF THE PLAN

As of August 1, 2012, the Plan had solvency liabilities of $923 million, assets of $582 million and a solvency deficiency of $341 million. On a wind-up basis, the liabilities would increase by $86 million due to the cost of early retirement windows and plan closure benefits.

As of August 1, 2012, the "transfer ratio" of the Plan was 58%, meaning that the Plan had assets equal to 58% of Plan liabilities on a wind-up basis. This means that had the Plan been terminated as of August 1, 2012 with the Company unable to make any additional contributions to it, total benefits would have been reduced by approximately 42%. As of August 1, 2013, the Plan's actuaries estimate that the Plan had a transfer ratio of 65%[1].

2. PROPOSED FUNDING RELIEF

The proposal for "Stage 2 Relief" as described more fully in the General Information document includes specific fixed amounts that ESAI is scheduled to contribute to its registered pension plans for the period from December 2013 to March 2017. The fixed amounts will first be allocated to the current service cost owed to the Plan and the Salaried Plan and to the contribution owed to the Wrap. The amount left after those contributions are made will be allocated to the Plan in proportion to the size of its solvency deficiency as compared to the total solvency deficiency in the Plan and the Salaried Plan as determined in the most recently filed actuarial valuation report for the plans. Since the August 1, 2012 actuarial valuations are the most recently filed valuations for all pension plans, the proportion for payments will be based on those valuation reports until August 1, 2013 valuation reports are filed. As of August 1, 2012, the proportion of the Plan's solvency deficit to the total solvency deficit is 72%. As such, approximately 72% of ESAI's contributions towards the solvency deficiency in both plans for 2013 to 2017 will go towards

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[1] This estimate is based on an extrapolation from the August 1, 2012 valuation. The actual ratio will be different from the estimate and will be determined as part of the August 1, 2013 valuation (which is currently in progress).

the Plan. The table below lists ESAI's estimated special payments to the Plan for the term of the Stage 2 Relief.

Any solvency deficit existing in the Plans as of April 2017 and Wrap as of December 2013 would be fully funded by no later than March 2024.

3. FUNDING WITH AND WITHOUT STAGE 2 RELEIF

The table below sets out the estimated special payments to be made to the Plan during the term of the Stage 2 Relief. It also sets out what ESAI would have to contribute if Stage 2 Relief is not granted and if ESAI were to continue operating.

Estimated Special Payments required to liquidate the solvency deficiency ($ million's)

	2013 (December)	**2014**	**2015**	**2016**	**2017 (to March)**	**April 2017 to March 2024**
No Stage 2 Relief	$7.2	$87.1	$55.4	$49.5	$8.4	$85.7
With Stage 2 Relief	$1.7	$19.9	$20.4	$24.8	$6.2	$255.8

In addition to the above special payments, ESAI is also contributing about $16 million in annual current service cost contributions to cover the cost of benefits accruing to active employees. The current service cost contribution is not affected by the proposed relief and is expected to decrease over time as members retire.

ESAI will also fund any additional cost that may arise when members retire prior to age 60 (also known as early retirement window benefits). Window costs are funded over a 6 year period from the end of each window, as per legislation, except with Stage 2 Relief, window costs arising prior to April 1, 2017 will be included in the deficiency at that date and funded accordingly (i.e. over the 7 year period ending March 31, 2024).

4. BENEFITS AND RISKS OF PROPOSED FUNDING RELIEF

You should consider how the continued operation of ESAI is to your advantage when judging the risks and benefits of the proposed funding relief.

Retirees

Unlike active members, retirees (and surviving spouses) do not receive employment income from ESAI. However, they are already receiving pension benefits. Many retirees may also receive non-pension benefits (for example: extended health, prescription drugs, and life insurance benefits).

It currently costs ESAI approximately $2,300 per retiree per year to cover these non-pension benefits, or about $55,000 on a present value basis for a retiree aged 65. These benefits are not pre-funded, i.e. there is no trust fund set aside with assets to back these benefits as is the case for the Plan. ESAI's sponsorship and funding of these benefits would cease if ESAI ceased operations. Some of these benefits would be irreplaceable for retirees.

Had the Plan terminated as of August 1, 2012 with pension benefits being reduced proportionally, a retiree would henceforth have received at most 58% of his or her current pension entitlement. For a retiree receiving, for example, $20,000 per year in pension benefits, this means that he or she would have seen a reduction to $11,600 ($20,000 x 58%) per year in pension benefits. Including the permanent loss in extended health, prescription drug, and life insurance benefits of about $2,300 per year, a retiree would have received up to 52%, (not 100%), of his or her total pension and non-pension benefits (52% = $11,600 / ($20,000 + $2,300)) had the Plan terminated as of August 1, 2012 and ESAI ceased operations.

However, should the proposed funding relief be implemented, ESAI continue to operate, and the Plan continue, this retiree would continue to receive $22,300 per year in pension benefits plus applicable non-pension benefits. Should the Plan be terminated at a later date with benefits reduced proportionally, the retiree's pension benefits would be reduced by the solvency ratio at the time of termination.

Another very important benefit to retirees of the Stage 2 Relief is the "bonus" payment that will be made in the event that ESAI has a "good year". ESAI has agreed with the Retiree Groups that, that, in the event that Stage 2 Relief is granted and ESAI achieves an EBITDA in excess of $400 million in any fiscal year ending prior to March 1, 2024 where the Plans or Wrap are not yet fully funded, each retiree as of the end of that fiscal year will receive a cash payment of $300. This payment will only be made if the Stage 2 Relief is granted.

Deferred Vested Members

The wind-up ratio of the Plan is of key importance to deferred vested members, who do not have any employment or pension income, non-pension benefits or other amounts contingent on the continued operation of ESAI. Similar to retirees, benefits would also be reduced if the Plan terminated because ESAI ceased operations.

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If you have accrued benefits under more than one of ESAI's pension plans and have not received information regarding all the plans under which you have accrued benefits, please go to www.essarsteelalgoma.com/company/pension/ for a copy of the plan-specific document(s) relating to the other plan(s) in which you have accrued benefits.

NOTICE OF OBJECTION

To be completed ONLY if you object to the Stage 2 Relief. If you consent, please DO NOT complete this form.

I am a deferred vested or retired member or surviving spouse of a former member of the Hourly Pension Plan.

By signing, dating and returning this form, I object to the Stage 2 Relief.

______________________	______________________	______________________
Signature	Employee Number	Date

Provided that the number of notices of objections received on or before November 29, 2013 confirms that not more than one-third of the deferred vested or retired members, or surviving spouses of a former member object to the Stage 2 Relief, the Stage 2 Relief will proceed for government approval. The notice of objection can be sent to:

Deloitte
1 City Centre Drive
Suite 500
Mississauga, Ontario L5B 1M2
Canada

Attention: Melissa Singh

Your signature and employee number are being collected in order that ESAI's auditors may verify the authenticity of each Notice of Objection it receives. ESAI will not be provided with the names or employee numbers of those individuals who object to the Stage 2 Relief. Only the number of objections received by Plan will be provided to ESAI.