



July 10, 2016

Ontario Steel Inc.

Re: Purchase of assets of Essar Steel Algoma

Dear Sirs,

The parties to this Letter of Intent hereby agree to negotiate definitive documents in respect of agreements and to take such other actions necessary to progress and promote the Transaction contemplated by the term sheet annexed hereto. It is understood that in the event that Ontario Steel is successful in acquiring the assets from Essar Steel Algoma Inc., any renegotiated collective bargaining agreements with USW Local 2251 shall include the income from Port of Algoma Inc. and Essar Power Canada with respect to any profit sharing component. Each party shall be permitted to disclose this Letter of Intent, including with respect to any submissions made to the Court in the CCAA proceedings of Essar Steel Algoma and its affiliates. Either party may terminate this Letter of Intent upon notice to the other party.

ONTARIO STEEL INVESTMENTS LIMITED

UNITED STEELWORKERS LOCAL UNION 2251:

By: 

By: 

Name: WASEEM IQBAL

Name: Michael Da Prat

Title: AUTHORIZED SIGNATORY

Title: President

By: 

Name: Mark Molinaro

Title: Vice President

...continued

By: John Kallio

Name: John Kallio

Title: Recording Secretary

By: Rainer Schmitt

Name: Rainer Schmitt

Title: Financial Secretary

By: Marino DeGregorio

Name: Marino DeGregorio

Title: Treasurer

By: Krytyna Ferguson

Name: Krytyna Ferguson

Title: Unit Chair-Clerical

SCHEDULE A

TERM SHEET

Algoma Purchase Agreement

This term sheet (the "Term Sheet") sets forth the material terms and conditions of a definitive asset purchase agreement (the "Algoma APA"), pursuant to which a subsidiary ("Algoma Purchaser") of Ontario Steel Investments Limited ("Ontario Steel") will acquire substantially all of the assets of Essar Steel Algoma Inc. ("Algoma"). This Term Sheet sets forth the material terms and conditions of the transactions contemplated herein and is binding upon the parties hereto, subject to finalization of the Algoma APA reflecting the terms and conditions of this Term Sheet.

1. Parties: *Seller: Algoma*
Purchaser: Algoma Purchaser
2. Algoma Purchaser: Algoma Purchaser shall be capitalized with US\$400,000,000 in cash, consisting of a US\$275,000,000 new debt facility and US\$125,000,000 in equity for the shareholders of the Algoma Purchaser. Additionally, Algoma Purchaser anticipates liquidity at close of US\$210,000,000 comprising of cash and ABL revolver availability. Ontario Steel will work to ensure that the services from the Port of Algoma Inc. ("PortCo") and Essar Power Canada Ltd. ("EPC") will continue as normal, including the assignment of the existing Portco and EPC agreements to Ontario Steel and its subsidiaries.
3. Purchased Assets: Algoma Purchaser will purchase substantially all of the assets of Algoma ("Algoma Purchased Assets"), including (i) accounts receivable, cash and cash equivalents, inventory, prepaid expenses and certain contracts, (ii) real estate and other property and equipment, (iii) all permits required to carry on the business, (iv) certain owned and licensed intellectual property and (v) certain books and records.
4. Excluded Assets: Excluded assets shall include: (i) certain contracts designated by the Algoma Purchaser, (ii) certain insurance policies and (iii) certain permits.
5. Environmental Liabilities: Algoma Purchaser will accept all environmental liabilities subject to an understanding with the Ministry of the Environment and Climate Change ("MOECC").
6. Assumed Liabilities: Assumed liabilities shall include: (i) accounts payable, accrued expenses, obligations arising after the Closing under assumed business contracts and certain obligations arising since the commencement of CCAA proceedings, (ii) obligations to pay employee severance (other than for those non-union employees not

offered employment or who decline offers of employment) and (iii) employee benefit plans, except as modified by agreement.

7. **Excluded Liabilities:** All liabilities not expressly assumed shall be excluded liabilities, including (i) taxes in respect of the period of time prior to the Closing (other than taxes related to the city), (ii) all obligations related to litigation, (iii) all liabilities relating to employees who are not transferred employees and (iv) all obligations relating to any Excluded Assets.
8. **Purchase Price:** The total Purchase Price shall be US\$903,000,000, comprising of (a) US\$400,000,000 of cash (an amount equal to amounts outstanding under the DIP Financing, the ABL Revolver and the ABL Term Loan Financing (in each case, as described below) plus outstanding municipal taxes and the reasonable wind down costs of Algoma's estate); *plus* (b) US\$234,000,000 by the assumption at closing of all employer liabilities under Algoma's defined benefit pension plans (as at December 31, 2015); *plus* (c) the assumption at closing of all employer liabilities under Algoma's OPEB plans (liabilities calculated at US\$269,000,000 as at December 31, 2015); *plus* (d) other Assumed Liabilities. Ontario Steel will also endeavor to reach a mutually satisfactory agreement with Senior secured noteholders.
- It is Ontario Steel's expectation that the allocation of consideration will be as follows:
- The DIP Financing and the ABL Revolver will each be repaid at par.
 - The ABL Term Loan Financing will be repaid in cash in the amount of US\$115,000,000.
9. **Escrow Account:** Upon signing the Algoma APA, Algoma Purchaser commits to placing the requisite equity cash component into an escrow account within two weeks, rather than as customary at closing.
10. **OPEB:** Algoma Purchaser will continue the current OPEB coverage for both active and retired employees.
11. **Pension:** Algoma Purchaser will assume all employer liabilities under Algoma's defined benefit registered pension plans. Algoma Purchaser will seek a special regulation to provide a 20-year solvency exemption from the Province of Ontario.

12. **Municipal Taxes:** Algoma Purchaser commits to full repayment of the outstanding taxes owed to the city of Ste. Sault Marie within six months post change of ownership.
13. **Closing Conditions:** The obligations of Algoma Purchaser to complete the transaction contemplated herein will be subject, among other things, to the satisfaction of the following conditions:
- (a) *Ratification of new collective bargaining agreement ("CBA"):* Renewed CBAs, substantially identical to the existing CBAs and/or as may be amended by agreement between the Algoma Purchaser and the Union, shall be entered into by and between Algoma Purchaser and the unions on or prior to the expiry date of each of the existing CBAs, extending the terms of such CBAs for three years;
 - (b) *Approvals:* Receipt of all applicable regulatory and union approvals, including necessary Pension Relief approvals;
 - (c) *Court Approval:* Approval from the CCAA court shall be obtained;
 - (d) *MAE:* There shall be no material adverse change to the business or the Algoma Purchased Assets;
 - (e) *Litigation; Government Actions:* There shall be no action or proceeding that may enjoin or prohibit the transaction;
 - (f) *Representations and Warranties:* The representations and warranties of Algoma shall be true and correct as of Closing;
 - (g) *Iron-Ore and Coal Supply Agreements:* Algoma Purchaser shall have entered into satisfactory supply contracts for raw materials;
 - (h) *Covenants:* All covenants shall be complied with in all material respects;
 - (i) *Due Diligence:* Confirmatory due diligence and satisfactory due diligence of materials from September 30, 2015, to closing on the part of Algoma Purchaser; and
 - (j) *Environmental:* Algoma Purchaser shall have a satisfactory agreement with the MOECC.
14. **Plan of Reorganization** of Algoma Purchaser shall have the right to acquire the Algoma Purchased Assets through a confirmed plan of reorganization on

- Option: substantially identical terms subject to tax review.
15. Representations and Warranties: The Algoma APA will contain customary and appropriate representations and warranties regarding the Algoma Purchased Assets, purchased business and Assumed Liabilities.
16. Certain Restrictions: Customary interim covenants/restrictions on the conduct of business by Algoma to assure appropriate levels of inventory/receivables/etc. at Closing to be included, including:
- (i) carrying on the purchased business in the ordinary course, consistent with past practice;
 - (ii) using reasonable commercial efforts to preserve the purchased business and assets, including the services of officers and employees and business relationships and goodwill with customers and suppliers;
 - (iii) paying or discharging its debts in accordance with the orders of the court under the CCAA proceeding;
 - (iv) not waiving or releasing any material claims held by it related to the purchased business except in the ordinary course of business;
 - (v) not entering into any contract, except in the ordinary course of business, or disclaiming any contracts or rights thereunder; and
 - (vi) not accelerating the delivery or sale of services or products, or offering discounts or price protection on the sale of services or products or premiums on the purchase of raw materials, except in the ordinary course of business.
17. Governing Law: The Algoma APA will be governed by the laws of the Province of Ontario.
18. Documentation:
- (a) Algoma APA
 - (b) Agreements with the Province of Ontario regarding Pension Relief
 - (c) Renewed and ratified CBA
 - (d) Board approvals from PortCo and EPC approving the transaction
 - (e) Agreement with senior secured noteholders
 - (f) Agreement with the MOECC