

2001 First Quarter Report
for the period ended March 31, 2001

TO THE SHAREHOLDERS OF ALGOMA STEEL INC.:

Summary

Algoma entered 2001 with unused availability of \$74 million, but this liquidity was exhausted in April due to the cash drain from operations, the interest payment on the First Mortgage Notes, a decrease in supplier credit due to earlier payment demands and a decrease in the collateral value of the working capital which decreases availability under the banking facility. These events necessitated a filing by the Company under the Companies Creditors Arrangement Act (CCAA) on April 23, 2001 which provides court protection to facilitate the development of a restructuring plan. The Company has negotiated additional financing from the existing banking syndicate to provide the necessary capital to fund the estimated cash requirements through a restructuring period.

The weak market conditions experienced in the second half of 2000 continued into the first quarter of 2001 causing a further decline in selling prices and higher unit costs due to low production levels. The result was a first quarter net loss of \$76.8 million or \$1.43 per share. This compares to a fourth quarter net loss of \$33.1 million or \$0.62 per share.

Financial and Operating Results

The loss from operations increased to \$52.9 million versus a loss from operations in the fourth quarter of \$10.7 million. Shipments increased to 490,000 tons from 437,000 tons in the fourth quarter but was achieved primarily through reducing steel inventories.

The level of raw steel production declined to 496,000 tons from 506,000 tons in the fourth quarter. Operating costs increased due to these low production levels but were also negatively affected by higher natural gas costs and the higher cost of U.S. sourced inputs related to the weaker Canadian dollar. In addition, there were several non-recurring adjustments such as a significant writedown of inventories because of low market values and the costs related to a roof collapse.

Average revenue per ton declined to \$464 per ton in the first quarter from \$521 per ton in the fourth quarter due to lower selling prices, a substantial decline in non-steel sales and a temporary shift in mix to products with lower prices. The selling prices realized in the first quarter are expected to represent the low in this cycle with higher selling prices expected in the second quarter.

Cash flow from operations before changes in working capital was a negative \$54.0 million compared to a negative \$13.9 million in the fourth quarter. The Company reduced the investment in working capital by \$22.7 million in the quarter with a substantial reduction in inventories, partially offset by lower payables relating primarily to the payment of interest on the First Mortgage Notes.

Trade

The Canada Customs and Revenue Agency is continuing its investigation into the alleged dumping of hot rolled sheet into Canada from twelve countries and countervailable subsidization by one of the twelve countries. In their preliminary determination issued April 19th, the Agency determined that 99.6% of the imports were dumped at margins as high as 49%. They also made a preliminary determination of countervailable subsidy on imports from India averaging approximately \$63 per metric ton. Provisional duties ranging from 5.1% to 96% have been imposed on shipments from the twelve countries. An injury hearing before the Canadian International Trade Tribunal is scheduled for mid-July with a decision to be rendered by mid-August.

Outlook

Operating levels have increased due to a combination of an improvement in order intake and the need to produce additional steel due to the absence of further inventory reduction opportunities by Algoma. The higher operating levels are expected to contribute to lower unit operating costs in the second quarter. Steel markets are improving and are expected to improve further through 2001 due to lower import levels, a reduction in North American steel capacity, the substantial completion of inventory reductions by customers and a general improvement in the economy in the second half as lower interest rates take effect.

Algoma's operating income per ton compares favourably to other integrated steel producers in North America. This performance is expected to further improve as the Company fully realizes the benefits of the DSPC and other initiatives. The Company is optimistic that a successful restructuring plan will be developed and we will work intensively with all stakeholders to ensure that outcome.

A. ADAM
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

H. EARL JOUDRIE
CHAIRMAN OF THE BOARD

Sault Ste. Marie, Ontario
April 23, 2001

Algoma Steel Inc.
 2001 First Quarter Report
Unaudited – Expressed in Canadian dollars
Consolidated Statements of Loss and Retained Earnings

	Three months ended March 31	
	<u>2001</u>	<u>2000</u>
<i>(millions of dollars)</i>		
Sales	\$ 227.5	\$ 303.5
Cost of sales	253.5	263.3
Administrative and selling expense	9.5	9.4
Depreciation and amortization	17.4	18.4
	<u>280.4</u>	<u>291.1</u>
Income (loss) from operations	(52.9)	12.4
Net financial expense	<u>23.4</u>	<u>20.8</u>
Loss before income taxes	<u>(76.3)</u>	<u>(8.4)</u>
Provision for income taxes - current	<u>0.5</u>	<u>0.6</u>
Net loss	\$ (76.8)	\$ (9.0)
Net loss per common share	\$ (1.43)	\$ (0.17)
Weighted average common shares outstanding - millions	<u>53.65</u>	<u>53.08</u>
Retained earnings		
Balance, beginning of period	\$ 128.5	\$ 148.4
Net loss	(76.8)	(9.0)
Pension and income tax adjustment	-	40.3
Balance, end of period	<u>\$ 51.7</u>	<u>\$ 179.7</u>
Operations		
<i>(thousands of net tons)</i>		
Raw steel production	<u>496</u>	<u>609</u>
Steel shipments	<u>490</u>	<u>561</u>

Algoma Steel Inc.
2001 First Quarter Report
Unaudited - Expressed in Canadian dollars
Consolidated Statements of Financial Position

	As at March 31	
	<u>2001</u>	<u>2000</u>
<i>(millions of dollars)</i>		
Current assets		
Accounts receivable	\$ 162.1	\$ 203.5
Inventories	270.1	283.8
Prepaid expenses	<u>6.3</u>	<u>5.4</u>
	<u>438.5</u>	<u>492.7</u>
Other assets		
Fixed assets, net	856.9	876.7
Unamortized blast furnace lining	17.9	23.0
Future income tax asset	53.8	50.5
Deferred charges	<u>60.2</u>	<u>27.5</u>
	<u>988.8</u>	<u>977.7</u>
Total assets	\$ <u>1,427.3</u>	\$ <u>1,470.4</u>
Current liabilities		
Bank indebtedness	\$ 145.9	\$ 103.6
Accounts payable and accrued liabilities	158.7	169.6
Income and other taxes payable	8.6	11.0
Current portion of long-term debt	<u>0.8</u>	<u>0.8</u>
	<u>314.0</u>	<u>285.0</u>
Other liabilities		
Long-term debt	522.3	475.5
Accrued pension liability and post-employment benefit obligation	428.4	424.0
Other long-term liabilities	<u>4.0</u>	<u>-</u>
	<u>954.7</u>	<u>899.5</u>
Shareholders' equity		
Common shares	188.0	187.3
Shareholders' deficiency on restructuring	(81.1)	(81.1)
Retained earnings	<u>51.7</u>	<u>179.7</u>
	<u>158.6</u>	<u>285.9</u>
Total liabilities and shareholders' equity	\$ <u>1,427.3</u>	\$ <u>1,470.4</u>

Algoma Steel Inc.
 2001 First Quarter Report
Unaudited - Expressed in Canadian dollars
Consolidated Statements of Cash Flow

	Three months ended March 31	
	<u>2001</u>	<u>2000</u>
<i>(millions of dollars)</i>		
Cash provided by (used in)		
Operating activities		
Cash from operations	\$ (54.0)	\$ 13.7
Decrease (increase) in operating working capital	<u>22.7</u>	<u>(40.3)</u>
	<u>(31.3)</u>	<u>(26.6)</u>
Investing activities		
Net additions to fixed assets	<u>(7.1)</u>	<u>(12.8)</u>
Financing activities		
Repayment of long-term debt	(0.2)	(0.2)
Increase in bank indebtedness	38.6	40.0
Common share proceeds	-	0.1
Financing expenses	<u>-</u>	<u>(0.5)</u>
	<u>38.4</u>	<u>39.4</u>
Cash		
Change during period	-	-
Balance, beginning of period	-	-
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>

The interim financial statements have been prepared on the basis of accounting principles applicable to a “going concern” that assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At the end of the interim period, the Corporation was in violation of financial covenants in its revolving credit facility and long-term debt agreement and have applied for protection under the Companies Creditors Arrangement Act to provide the Corporation a period of time to restructure. These statements do not include any adjustments to the carrying amounts or classification of assets and liabilities that would be necessary should the Corporation be unable to continue in business.

Interim financial statements do not meet the full requirements of GAAP and should be read in conjunction with the most recent audited annual financial statements.