

ALGOMA STEEL INC.
Financial Statements
For the period ended June 30, 2007

Algoma Steel Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income and Retained Earnings

(Unaudited)

(millions of Canadian dollars)

	Successor April 12 to June 30 2007	Predecessor April 1 to June 19 2007	Predecessor April 1 to June 30 2006	Successor April 12 to June 30 2007	Predecessor January 1 to June 19 2007	Predecessor January 1 to June 30 2006
Sales	\$ 50.4	\$ 431.9	\$ 504.8	\$ 50.4	\$ 911.4	\$1,004.4
Operating expenses						
Cost of sales	43.2	370.9	360.8	43.2	779.1	762.4
Administrative and selling	1.8	14.7	18.8	1.8	32.2	36.3
Amortization	<u>4.7</u>	<u>14.2</u>	<u>14.5</u>	<u>4.7</u>	<u>30.2</u>	<u>28.8</u>
Income (loss) from operations	0.7	32.1	110.7	0.7	69.9	176.9
Transaction related expenses (note 19)	<u>2.4</u>	<u>21.2</u>	<u>-</u>	<u>2.4</u>	<u>21.2</u>	<u>-</u>
Financial expense (income)						
Interest expense	2.9	0.9	0.5	2.9	1.3	1.1
Foreign exchange loss (gain)	(7.5)	11.9	3.2	(7.5)	13.4	2.9
Premium on redemption of 11% Notes	-	-	-	-	-	7.9
Currency contract gains (note 3)	(17.0)	-	-	(17.0)	-	-
Currency contract premiums (note 3)	9.8	-	-	9.8	-	-
Investment income	<u>-</u>	<u>(1.6)</u>	<u>(3.4)</u>	<u>-</u>	<u>(3.3)</u>	<u>(6.1)</u>
	(11.8)	11.2	0.3	(11.8)	11.4	5.8
Income before income taxes	10.1	(0.3)	110.4	10.1	37.3	171.1
Income taxes (note 15)						
Current (recovery)	(7.0)	12.6	40.5	(7.0)	29.1	68.7
Future (recovery)	<u>4.9</u>	<u>(4.6)</u>	<u>(9.3)</u>	<u>4.9</u>	<u>(6.6)</u>	<u>(9.5)</u>
	(2.1)	8.0	31.2	(2.1)	22.5	59.2
Net income (loss) and comprehensive income (loss)	\$ <u>12.2</u>	\$ <u>(8.3)</u>	\$ 79.2	\$ <u>12.2</u>	\$ <u>14.8</u>	\$ 111.9
Retained earnings						
Balance, beginning of period	\$ -	\$ 416.0	\$ 378.7	\$ -	\$ 393.3	\$ 346.0
Net income (loss)	12.2	(8.3)	79.2	12.2	14.8	111.9
Purchase and cancellation of shares	-	-	(27.9)	-	-	(27.9)
Dividend equivalents paid on exercising of share options	-	-	-	-	(0.4)	-
Purchase transaction (note 3)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of period	\$ 12.2	\$ 407.7	\$ 430.0	\$ 12.2	\$ 407.7	\$ 430.0

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)

Raw steel production	68	578	665	68	1,184	1,302
Steel shipments	68	552	625	68	1,195	1,268

See accompanying notes.

Algoma Steel Inc.
Consolidated Balance Sheets

(Unaudited)

(millions of Canadian dollars)

	Successor June 30 2007	Predecessor December 31 2006
Current assets		
Cash and cash equivalents	\$ 5.4	\$ 29.4
Restricted cash	7.8	-
Short-term investments	-	145.7
Accounts receivable	232.3	216.0
Income and other taxes receivable	10.3	-
Inventories	438.5	420.4
Prepaid expenses	44.6	19.1
Future income taxes (note 15)	<u>1.2</u>	<u>1.7</u>
	<u>740.1</u>	<u>832.3</u>
Property, plant and equipment, net (note 5)	1,851.3	648.8
Accrued pension asset	-	22.6
Intangible assets, net (note 6)	197.8	-
Other assets	<u>4.9</u>	<u>1.7</u>
Total assets	<u>\$ 2,794.1</u>	<u>\$ 1,505.4</u>
Current liabilities		
Bank indebtedness (note 9)	\$ 98.6	\$ -
Accounts payable and accrued liabilities	175.7	148.5
Payable to predecessor shareholder (note 3)	130.8	-
Payable to Essar Steel Holdings Limited (note 8)	8.8	-
Income and other taxes payable	-	58.4
Current portion of long-term debt (note 10)	4.8	-
Accrued pension liability and post-employment benefit obligation (note 11)	17.3	16.5
Future income tax liabilities (note 15)	<u>7.1</u>	<u>1.0</u>
	<u>443.1</u>	<u>224.4</u>
Long-term debt (note 10)	927.6	-
Accrued pension liability and post-employment benefit obligation	483.4	258.0
Other long-term liabilities	7.3	7.7
Future income tax liabilities (note 15)	<u>388.7</u>	<u>130.2</u>
	<u>1,807.0</u>	<u>395.9</u>
Shareholders' equity		
Capital stock (note 12)	531.8	253.6
Contributed surplus	-	238.2
Retained earnings	<u>12.2</u>	<u>393.3</u>
	<u>544.0</u>	<u>885.1</u>
Total liabilities and shareholders' equity	<u>\$ 2,794.1</u>	<u>\$ 1,505.4</u>

See accompanying notes.

Algoma Steel Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(millions of Canadian dollars)

	Successor April 12 to June 30 2007	Predecessor April 1 to June 19 2007	Predecessor April 1 to June 30 2006	Successor April 12 to June 30 2007	Predecessor January 1 to June 19 2007	Predecessor January 1 to June 30 2006
Cash provided by (used in)						
Operating activities						
Net income	\$ 12.2	\$ (8.3)	\$ 79.2	\$ 12.2	\$ 14.8	\$ 111.9
Adjustments and items not affecting cash:						
Amortization	4.7	14.2	14.5	4.7	30.2	28.8
Pension expense in excess of payments (note 11)	0.6	9.9	13.6	0.6	21.2	27.0
Post employment benefit expense in excess of payments (note 11)	0.1	4.0	4.1	0.1	8.7	8.4
Future income tax expense (recovery)	4.9	(4.6)	(9.3)	4.9	(6.6)	(9.5)
Exchange gain on long-term debt and accrued interest	(6.7)	-	-	(6.7)	-	-
Loss (gain) on disposal of capital assets	(0.4)	0.4	(0.2)	(0.4)	0.4	(0.3)
Premium on redemption of 11% Notes	-	-	-	-	-	7.9
Stock-based compensation	-	6.3	1.0	-	7.3	1.4
Other	0.3	(0.3)	(0.4)	0.3	0.7	(0.2)
	<u>15.7</u>	<u>21.6</u>	<u>102.5</u>	<u>15.7</u>	<u>76.3</u>	<u>175.4</u>
Changes in non-cash operating working capital	<u>(44.3)</u>	<u>25.3</u>	<u>(12.4)</u>	<u>(44.3)</u>	<u>(32.7)</u>	<u>(50.5)</u>
	<u>(28.6)</u>	<u>46.9</u>	<u>90.1</u>	<u>(28.6)</u>	<u>43.6</u>	<u>124.9</u>
Investing activities						
Decrease (increase) in short-term investments	142.1	(140.3)	-	142.1	3.6	262.2
Capital asset expenditures	(7.5)	(17.7)	(11.3)	(7.5)	(35.1)	(25.6)
Proceeds on sale of capital assets	0.2	0.2	0.3	0.2	0.3	0.5
Business acquisition (note 3)	(1,666.4)	-	-	(1,666.4)	-	-
	<u>(1,531.6)</u>	<u>(157.8)</u>	<u>(11.0)</u>	<u>(1,531.6)</u>	<u>(31.2)</u>	<u>237.1</u>
Financing activities						
Bank indebtedness, net	98.6	-	-	98.6	-	-
Proceeds of long-term notes and bank term loan, net (note 10)	939.1	-	-	939.1	-	-
Issuance of shares	531.8	-	-	531.8	-	-
Advance from Essar Steel Holdings Limited, net	8.8	-	-	8.8	-	-
Financing costs, bank indebtedness	(4.9)	(0.3)	-	(4.9)	(0.3)	-
Restricted cash	(7.8)	-	-	(7.8)	-	-
Purchase and cancellation of shares	-	-	(40.1)	-	-	(40.1)
Dividend equivalents paid on exercising of options	-	-	-	-	(0.4)	-
Redemption of 11% Notes	-	-	-	-	-	(153.3)
Other	-	-	0.3	-	0.1	0.2
	<u>1,565.6</u>	<u>(0.3)</u>	<u>(39.8)</u>	<u>1,565.6</u>	<u>(0.6)</u>	<u>(193.2)</u>
Cash and cash equivalents						
Change during the period	5.4	(111.2)	39.3	5.4	11.8	168.8
Balance, beginning of period	-	152.4	302.1	-	29.4	172.6
Balance, end of period	<u>5.4</u>	<u>41.2</u>	<u>341.4</u>	<u>5.4</u>	<u>41.2</u>	<u>341.4</u>
Changes in non-cash operating working capital						
Accounts receivable	(4.9)	41.9	(17.8)	(4.9)	(11.4)	(31.2)
Income and other taxes receivable / payable	(7.8)	(26.4)	13.4	(7.8)	(60.9)	8.3
Inventories	(6.6)	(45.5)	(48.8)	(6.6)	11.5	3.4
Prepaid expenses	5.9	(5.2)	8.8	5.9	(31.1)	(25.3)
Accounts payable and accrued liabilities	(30.9)	60.5	32.0	(30.9)	59.2	10.9
	<u>(44.3)</u>	<u>25.3</u>	<u>(12.4)</u>	<u>(44.3)</u>	<u>(32.7)</u>	<u>(50.5)</u>

See accompanying notes.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2007

(Expressed in millions of Canadian dollars, except share and per share amounts and as noted)

1. Basis of Presentation

On June 20, 2007, pursuant to a plan of arrangement (the "Transaction" or "Acquisition"), Algoma Steel Inc. (the "Predecessor") was acquired by Algoma Acquisition Corp. ("Successor"), which was an indirect wholly-owned subsidiary of Essar Steel Holdings Limited, incorporated on April 12, 2007 solely for the purpose of the acquisition. On June 23, 2007, Algoma Steel Inc. and Algoma Acquisition Corp. were amalgamated and continued operating as Algoma Steel Inc. The term "Predecessor" refers to Algoma Steel Inc. and its subsidiaries on a consolidated basis prior to the Acquisition, and the term "Company" refers to the Predecessor prior to the Acquisition and to the combined Predecessor and Successor companies after the Acquisition.

These interim consolidated financial statements of the Successor include the results of operations and cash flows of the Successor for the period from April 12, 2007 to June 30, 2007 and include the results of the acquired business for the period from June 20, 2007 to June 30, 2007. Other than activities in connection with the Acquisition, the Successor had no activities prior to the Acquisition. The interim consolidated financial statements of the Predecessor are provided for the periods from January 1, 2007 to June 19, 2007 and April 1, 2007 to June 19, 2007.

These interim consolidated financial statements have been prepared using the same accounting principles and methods as were used for the Predecessor's consolidated financial statements for the year ended December 31, 2006, except as described below. The interim consolidated financial statements of the Predecessor for the comparative periods of 2006 are not comparable in all respects to the interim consolidated financial statements of 2007 as a result of the Transaction which resulted in a comprehensive revaluation of its assets and liabilities at June 20, 2007, as a result of the application of business combinations accounting.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit and term deposits maturing within 90 days of acquisition and are valued at cost plus accrued interest, which approximates fair value.

Restricted cash represents cash held in an escrow account in order to secure and fund certain future obligations.

Short-Term Investments

Short-term investments include Canadian dollar bankers' acceptances and commercial paper with remaining maturities greater than 90 days at acquisition.

Revenue Recognition

Revenue is recognized on the sale of manufactured products when risks of ownership and legal title pass to the customer, which generally occurs at the time of shipment. Revenues are recorded net of provisions for returns, customer claims and other adjustments. Amounts billed to customers in a sale transaction related to shipping and handling are recorded as revenue. The Company reflects freight costs associated with shipping its products to customers as a component of cost of sales.

Inventories

Inventories are valued at the lower of average cost and net realizable value. Average cost for finished goods and work in process is comprised of direct costs and an allocation of production overheads, excluding amortization expense.

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Property, Plant and Equipment

Property, plant and equipment of the successor is recorded at its estimated fair value on June 20, 2007 pursuant to the Transaction. Property, plant and equipment purchased after June 20, 2007 is recorded at cost. Interest incurred in connection with the construction of major new facilities is capitalized. The amortization of property, plant and equipment begins when assets are ready for their intended use.

Amortization is calculated generally by the straight-line method based on estimated remaining useful lives as follows:

Buildings	5 to 40 years
Machinery and equipment	5 to 20 years
Computer hardware and software	5 years
Mill rolls	1 to 15 years

Capital costs related to extending the useful life of the blast furnace are amortized over its estimated life on a unit of production basis.

The Company incurs maintenance costs on all of its major equipment. Costs that extend the life of the asset or increase the utility of the asset are capitalized as property, plant and equipment and are depreciated over the estimated useful life. All other repair and maintenance costs are expensed as incurred.

Interest incurred in connection with the construction of major new facilities is capitalized until the asset is ready for its intended use.

Intangible Assets

As a result of the accounting for the Transaction, the Company allocated a substantial portion of the purchase price to intangible assets that include customer relationships, technology, in-process research and development, supply agreements and order backlogs. Finite lived intangible assets are amortized on a straight-line basis over their estimated remaining useful lives, as follows:

Customer relationships	Over expected life, ranging from 12 to 14 years
Technology	Over expected useful life, ranging from 5 to 10 years
In-process research and development	Over expected useful life, ranging from 5 to 10 years
Supply agreements	Over terms of specific agreements, ranging from 1 to 20 years
Order backlogs	Over expected completion period

Finite lived intangible assets which are subject to amortization are evaluated for impairment when events or conditions indicate that the carrying value may be impaired by comparing the carrying value to future undiscounted cash flows. For intangible assets with indefinite lives and which are not amortized, an impairment test is performed at least annually which compares the carrying value of intangible assets to fair value. If impairment is determined to have occurred, an impairment loss is recognized for the excess of the carrying amount of the intangible asset over its fair value.

Income Taxes

The Company follows the liability method of income tax allocation. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided to the extent that it is not more likely than not that the future income tax assets will be realized. Investment tax credits related to research and development are recognized in earnings as a reduction of such expenses when the Company has made the qualifying expenditures and to the extent that there is reasonable assurance that the credits will be realized.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

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Translation of Foreign Currencies

The Company's functional currency is the Canadian dollar and other currencies are accounted for as foreign currencies. Foreign currency monetary assets and liabilities are translated at period-end exchange rates. All non-monetary assets and liabilities are translated using historical rates. Revenue and expenses are translated using average exchange rates prevailing during the period. All gains and losses resulting from foreign currency translation are included in the determination of net income as incurred.

Pensions and Other Post-Employment Benefits

The Company measures its accrued benefit obligation and the fair value of plan assets for accounting purposes at November 30 (the measurement date) each year. The accrued benefit obligations and the benefit costs are actuarially determined using the projected benefit method pro-rated on services. The past service costs resulting from negotiated benefit changes are amortized over the term of the collective bargaining agreement. Cumulative gains and losses (such as adjustments arising from experience gains and losses and changes in assumptions) in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of active members expected to receive the benefits under the plans and over the average remaining life expectancy of 16 years for plans where all, or almost all, of the employees are no longer active. The expected average remaining service period of active members of the pension plans at the measurement date of November 30, 2006 was 9 to 10 years. The expected average remaining service period of active members related to the other post-employment benefits at the measurement date of November 30, 2006 was 11 years.

The Company also provides for other post-employment benefits upon retirement for employees and their dependants. The cost of these benefits is accrued over the service lives of the employees based on actuarial estimates.

The pension and post-employment benefit plans of the Predecessor were assumed by the Successor as a result of the Transaction with no changes to the plans.

Environmental Costs

For environmental liabilities that can be estimated, the Company accrues its best estimate of the costs to be incurred.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2007

(Expressed in millions of Canadian dollars, except share and per share amounts and as noted)

Financial Instruments

On January 1, 2007, the Predecessor retroactively adopted, without restatement of prior periods, CICA Handbook Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3861, "Financial Instruments – Disclosure and Presentation", "Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3865, "Hedges".

Section 1530, "Comprehensive Income" introduces the concept of comprehensive income, which consists of Net Income and Other Comprehensive Income (OCI). OCI represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses resulting from changes in fair value of certain financial instruments. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income, which is presented as a new category of Shareholders' Equity on the Consolidated Balance Sheet. Section 3251, "Equity", replaces Section 3250, "Surplus" and incorporates amendments resulting from the issuance of Section 1530.

Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation" establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives and related disclosures. Section 3855 requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Held-for-trading financial instruments are subsequently measured at fair value and changes in fair value are recognized in net income in the period in which they occur. Available-for-sale financial instruments are subsequently measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired at which time the amounts would be recognized in net income. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost.

Upon adoption of Section 3855, the Predecessor designated its cash and cash equivalents and short-term investments as held-for-trading and its accounts receivable as loans and receivables. Accounts payable and accrued liabilities were designated as other financial liabilities.

The Predecessor selected January 1, 2003 as its transition date for separation of embedded derivatives in financial instruments or contracts. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. Certain contracts and instruments entered into prior to this transition date and not subsequently modified have not had embedded derivatives separated.

Section 3865, "Hedges" specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

To manage risks associated with future variability in cash flows attributable to certain commodity purchases, the Company uses natural gas swap contracts with maturities of twelve months or less. The Company also utilizes steel swap contracts with maturities of twelve months or less to manage the risks associated with future variability in steel prices. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Where hedge accounting is intended to be used, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. Where hedging instruments are not demonstrated to be highly effective or when hedge accounting is not used, these derivative instruments are recorded at fair value on the balance sheet with unrealized gains and losses recorded in earnings as they occur. At June 30, 2007 natural gas swap contracts had a fair value of nil. The fair value of the steel swap contracts at June 30, 2007 was an asset of \$0.7 million which is included in Prepaid expenses.

Fair Value of Financial Instruments

The fair value of short-term investments, accounts receivable, accounts payable and accrued liabilities and income and other taxes payable approximates carrying value due to the short-term nature of these instruments.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2007

(Expressed in millions of Canadian dollars, except share and per share amounts and as noted)

Financing Costs

Financing costs associated with the Revolving Facility (note 9) are amortized on a straight-line basis over the term of the facility as a component of interest expense. Financing costs related to the bank term loan and the Senior Notes are recorded as a component of the carrying amount of the related debt and are amortized to income using the effective interest rate method. Financing costs related to equity issues are accounted for as a reduction of capital stock.

Stock-Based Compensation Plans

The Predecessor had three stock-based compensation plans as described in note 11 to the Predecessor's 2006 Consolidated Financial Statements. The Predecessor accounted for its grants under those plans in accordance with the fair value based method of accounting for stock-based compensation. As a result of the Transaction, all stock-based compensation awards vested and were settled and the plans were cancelled.

Impairment of Long-Lived Assets

On an annual basis, the Company reviews whether there are any indicators of impairment of its long-lived assets. If such indicators are present, the Company assesses the recoverability of the long-lived assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to net income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. In addition to items discussed elsewhere, significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment; measurement of inventories; the tax benefits related to scientific research and experimental development claims; valuation allowances for receivables and future income taxes; and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

Asset Retirement Obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

Comparative Figures

Certain items in the Predecessor's prior years' consolidated interim financial statements have been reclassified from statements previously presented to conform to the presentation adopted in the current interim period.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2007

(Expressed in millions of Canadian dollars, except share and per share amounts and as noted)

3. Acquisition of the Company

The Company accounted for the Transaction as a business combination using the purchase method. All consideration for shares and other equity instruments was paid in cash. Since the acquisition of the Predecessor was completed on June 20, 2007, the allocation of the purchase price is preliminary and subject to refinement given the valuation of the net assets acquired and liabilities assumed is not finalized. The allocation of the purchase price reflects management's best estimates at the date of preparing these unaudited interim financial statements and is expected to be finalized by the fourth quarter of 2007. The following table summarizes preliminary estimates of the fair value of the assets acquired and liabilities assumed at the date of acquisition:

	Acquisition of Predecessor
Current assets, including acquired cash of \$41.2	\$ 895.6
Current future income taxes	3.5
Property, plant and equipment	1,847.6
Intangible assets:	
Customer asset	99.6
Technology	10.4
In-process research and development	4.5
Supply agreements	76.7
Order backlogs	<u>7.2</u>
	<u>198.4</u>
Total assets acquired	2,945.1
Current liabilities assumed	(206.2)
Pension and other post-employment benefits	(500.0)
Other long-term liabilities	(7.3)
Long-term future income taxes	<u>(393.2)</u>
Total liabilities assumed	<u>(1,106.7)</u>
Net assets acquired	<u>\$ 1,838.4</u>

The total cost of the acquisition was \$1,838.4 million, including amounts paid or payable to shareholders and holders of stock options and other equity-based awards of \$1,827.0 million and acquisition costs of \$11.4 million. At the closing of the Transaction, a shareholder of the Predecessor, holding approximately 2.3 million common shares, exercised their dissent rights in opposition to the Transaction. As a result, an amount due to this shareholder pursuant to the Transaction totaling approximately \$130.8 million was not distributed at close. In July 2007, the shareholder withdrew their dissent and accordingly, the Company paid the amount outstanding related to the Transaction. As of June 30, 2007, amounts outstanding in this regard were classified as a current liability.

To fund the Transaction, the Successor entered into various debt facilities as described in notes 9 and 10. The total amount drawn on the long-term debt facilities at the close of the Transaction consisted of \$482.75 million (U.S. \$450 million) on the bank term loan facility and \$482.75 million (U.S. \$450 million) from Senior Subordinated Notes, less total related financing costs of \$26.4 million. Drawings on the Revolving Credit Agreement of \$82.8 million less related financing costs of \$4.7 million, cash from equity financing of \$531.8 million and \$142.1 million from short-term investments of the Predecessor were also used to fund the Transaction.

Prior to the Acquisition, Algoma Acquisition Corp. entered into foreign exchange forward and option contracts to purchase Canadian dollars with U.S. dollars in order to manage the currency exchange risk associated with funding the Canadian dollar purchase price with U.S. dollars. These contracts were not accounted for as hedges and for the period April 12 to June 30, 2007, the Successor recorded a gain of \$17.0 million and related premium expense of \$9.8 million on these foreign exchange option and forward contracts.

4. Inventories

	Successor June 30 2007	Predecessor December 31 2006
Raw materials and supplies	\$ 166.4	\$ 202.9
Work in process	164.0	136.1
Finished products	<u>108.1</u>	<u>81.4</u>
	<u>\$ 438.5</u>	<u>\$ 420.4</u>

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5. Property, Plant and Equipment

	Successor June 30, 2007			Predecessor December 31, 2006		
	Cost	Accumulated Amortization	Net book Value	Cost	Accumulated Amortization	Net book Value
Land	\$ 20.0	\$ -	\$ 20.0	\$ 2.5	\$ -	\$ 2.5
Buildings	190.0	0.6	189.4	15.5	3.5	12.0
Machinery and equipment	1,552.5	3.3	1,549.2	839.4	243.6	595.8
Computer software	35.8	0.2	35.6	6.4	1.3	5.1
Construction in progress	<u>57.1</u>	<u>-</u>	<u>57.1</u>	<u>33.4</u>	<u>-</u>	<u>33.4</u>
	\$1,855.4	\$ 4.1	\$1,851.3	\$897.2	\$ 248.4	\$ 648.8

6. Intangible Assets

	Successor June 30 2007	Predecessor December 31 2006
Customer relationships	\$ 99.6	\$ -
Technology	10.4	-
In-process research and development	4.5	-
Supply agreements	76.7	-
Order backlogs	<u>7.2</u>	<u>-</u>
	198.4	-
Accumulated amortization	<u>(0.6)</u>	<u>-</u>
	<u>\$ 197.8</u>	<u>\$ -</u>

7. Accounts Payable and Accrued Liabilities

	Successor June 30 2007	Predecessor December 31 2006
Trade payables	\$ 65.6	\$ 55.6
Accrued liabilities	60.9	37.9
Wages and employee deductions payable	20.1	26.1
Accrued vacation pay	<u>29.1</u>	<u>28.9</u>
	<u>\$ 175.7</u>	<u>\$ 148.5</u>

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8. Payable to Essar Steel Holdings Limited

The foreign currency contract premium costs were paid by Essar Steel Holdings Limited on behalf of the Company, resulting in this liability. The liability is unsecured and non-interest bearing with no specific repayment terms.

9. Banking Facilities

In order to facilitate the Transaction and refinance the Company, on June 20, 2007, the Successor 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 and inventory of the Company while the bank term loan has priority claim on the rest of the Company's assets. Borrowings can be made in either Canadian or United States funds. 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%. United States borrowings bear interest at either 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.

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, a commitment fee of 0.25% of the full amount of the Revolving Facility, a funding fee of 0.75% of the full amount of the Revolving Facility and a letter of credit fee ranging from 1.25% to 2.00%, depending on the average excess availability under the Revolving Facility. Fees totaling \$4.7 million were incurred to establish the Revolving Facility and will be amortized to expense over its term.

At June 30, 2007, there was \$98.6 million outstanding under the Revolving Facility and \$298.0 million of unused availability after taking into account \$28.3 million of outstanding letters of credit.

Under the terms of the Agreement, the Company is required to be in compliance with various restrictive covenants, including a maximum leverage ratio and a minimum interest coverage ratio.

10. Long-Term Debt

	Successor June 30 2007	Predecessor December 31 2006
Bank term loan denominated in U.S. dollars, bearing interest at LIBOR plus 2.5% or the lender's corporate base rate plus 1.5%, due June 15, 2013	\$ 479.4	-
Senior Subordinated Notes denominated in U.S. dollars, bearing interest at 9.875%, due June 15, 2015	479.4	-
	\$ 958.8	-
Less unamortized financing costs	26.4	-
	\$ 932.4	-
Less current portion	4.8	-
	\$ 927.6	-

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

July 1, 2007 to December 31, 2007	\$ 2.4
2008	4.8
2009	4.8
2010	4.8
2011	4.8
Thereafter	<u>937.2</u>
	<u>\$ 958.8</u>

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The term loan has a principal amount of U.S. \$450 million and is secured by substantially all of the Company's assets and is subject to various restrictive covenants, including a maximum leverage ratio and a minimum interest coverage ratio. It is repayable in quarterly payments of U.S. \$1,125,000 beginning September 30, 2007, with the balance of U.S. \$424,125,000 due at maturity.

Financing costs related to the bank term loan and the Senior Notes totaled \$26.4 million and 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 U.S. \$450 million Senior Subordinated 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 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 Notes at a redemption price equal to 100% of the principal amount of 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 Notes at the following redemption prices, plus accrued and unpaid interest:

2011	104.938%
2012	102.469%
2013	100.000%

Under Canadian generally accepted accounting principles the prepayment options in the 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 included in the carrying amount of the Notes have an estimated fair value of \$4.9 million at June 30, 2007 and there was no significant change in fair value in the period since issuance on June 20, 2007.

11. Pension and Other Post-Employment Benefits

Reconciliation of funded status of defined benefit pension plans:

	Successor June 30 2007	Predecessor December 31 2006
Accrued benefit obligation	\$ (823.1)	\$ (873.9)
Market value of plan assets	<u>713.7</u>	<u>625.4</u>
Funded status at measurement date	\$ (109.4)	(248.5)
Unamortized actuarial loss	-	170.6
Unamortized past service costs	-	10.5
Employer contributions after measurement date	<u>-</u>	<u>90.0</u>
	<u>\$ (109.4)</u>	<u>\$ 22.6</u>

Composition of accrued pension asset (liability) on consolidated balance sheets:

	Successor June 30 2007	Predecessor December 31 2006
Current portion	\$ (0.6)	\$ -
Accrued pension asset	-	91.7
Accrued pension liability	<u>(108.8)</u>	<u>(69.1)</u>
Funded status at measurement date	<u>\$ (109.4)</u>	<u>\$ 22.6</u>

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The significant weighted average assumptions related to the pension plans are as follows:

	Successor June 30 2007	Predecessor December 31 2006
Accrued benefit obligation:		
Discount rate	5.65%	4.97%
Rate of compensation increase	4.00%	4.00%
Net periodic pension costs:		
Discount rate	5.65%	5.21%
Expected long-term rate of return on plan assets	7.00%	6.95%
Rate of compensation increase	4.00%	4.00%

Pension expense for the Predecessor for the period from April 1 to June 19, 2007 was \$10.1 million (April 1 to June 30, 2006 - \$13.7 million) and for the period from January 1 to June 19, 2007 was \$21.6 million (January 1 to June 30, 2006 - \$27.3 million). Pension expense for the Successor for the period from April 12 to June 30, 2007 was \$0.6 million.

Reconciliation of funded status of other post-employment benefit plans:

	Successor June 30 2007	Predecessor December 31 2006
Funded status at measurement date	\$ (390.6)	(394.5)
Unamortized actuarial loss	-	117.6
Unamortized past service costs	-	1.3
Employer contributions after measurement date	<u>-</u>	<u>1.1</u>
	<u>\$ (390.6)</u>	<u>\$ (274.5)</u>

Composition of accrued other post-employment benefit obligation on consolidated balance sheets:

	Successor June 30 2007	Predecessor December 31 2006
Current portion	\$ (16.7)	\$ (16.5)
Accrued post-employment benefit obligation	<u>(373.9)</u>	<u>(258.0)</u>
Funded status at measurement date	<u>\$ (390.6)</u>	<u>\$ (274.5)</u>

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The significant weighted average assumptions related to the other post-employment benefits are as follows:

	<u>Successor</u> <u>June 30</u> <u>2007</u>	Predecessor December 31 <u>2006</u>
Accrued benefit obligation:		
Discount rate	5.65%	5.00%
Initial health care rate	6.60%	6.60%
Ultimate health care rate	4.50%	4.50%
Year ultimate rate reached	2014	2013
Net periodic benefit costs:		
Discount rate	5.65%	5.25%
Initial health care rate	6.90%	6.90%
Ultimate health care rate	4.50%	4.50%
Year ultimate rate reached	2014	2013

Post-employment benefits expense for the Predecessor for the period from April 1 to June 19, 2007 was \$7.1 million (April 1 to June 30, 2006 - \$7.8 million) and for the period from January 1 to June 19, 2007 was \$15.1 million (January 1 to June 30, 2006 - \$15.6 million). Post-employment benefits expense for the Successor for the period from April 12 to June 30, 2007 was \$0.8 million.

12. Share Capital

Authorized - Unlimited common shares

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

	<u>Common shares</u> <u>Issued and Outstanding</u>	
	<u># shares</u>	<u>Stated capital</u>
Common shares issued on incorporation	10,000	-
Common shares issued during the period from April 12 to June 30, 2007	<u>500,000,000</u>	<u>\$ 531.8</u>
Balance at June 30, 2007	<u>500,010,000</u>	<u>\$ 531.8</u>

13. Stock-Based Compensation Plans

The Predecessor had three stock based compensation plans consisting of a share award plan, a stock option plan and a restricted share unit plan that were terminated as a result of the Transaction. The Successor does not have any stock based compensation plans.

During the period from April 1 to June 19, 2007, 1,547 shares (April 1 to June 30, 2006 – 570) of the Predecessor were awarded under the share award plan and there were no options or restricted share units granted (April 1 to June 30, 2006 – 413,360 options and 2,500 restricted share units). During the period from January 1 to June 19, 2007, 5,807 shares (January 1 to June 30, 2006 – 570) of the Predecessor were awarded under the share award plan and there were no options or restricted share units granted (January 1 to June 30, 2006 – 413,360 options and 2,500 restricted share units).

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The compensation expense recognized for all awards granted under these plans was \$6.3 million for the period from April 1 to June 19, 2007 (April 1 to June 30, 2006 - \$1.0 million) and \$7.3 million for the period from January 1 to June 19, 2007 (January 1 to June 30, 2006 - \$1.4 million).

14. Profit Sharing Plan

The Company has a profit sharing plan for substantially all employees. The amount of profit sharing is based on a percentage of annual income from operations, as defined in the Collective Bargaining Agreements, before the provision for profit sharing as follows:

Annual Income from Operations	Profit Sharing Percentage
\$0 - \$50 million	0%
\$50 - \$100 million	6%
\$100 - \$150 million	8%
Greater than \$150 million	10%

15. Income Taxes

The following table explains the variation between the Company's provision for income taxes and the statutory income tax rate:

	Successor April 12 to June 30 2007	Predecessor April 1 to June 19 2007	Predecessor April 1 to June 30 2006	Successor April 12 to June 30 2007	Predecessor January 1 to June 19 2007	Predecessor January 1 to June 30 2006
Income tax provision at the statutory manufacturing and processing rate of 34.1%	\$ 3.4	\$ (0.1)	\$ 37.6	\$ 3.4	\$ 12.7	\$ 58.3
Add (deduct):						
Impact of future Federal tax rate reductions	(4.4)	-	(11.6)	(4.4)	-	(11.6)
Impact of pension expense and funding	-	-	2.4	-	-	6.5
Impact of post-employment benefit expense	-	3.6	1.9	-	5.1	5.0
Other	(1.1)	4.5	0.9	(1.1)	4.7	1.0
Provision for income taxes	<u>\$ (2.1)</u>	<u>\$ 8.0</u>	<u>\$ 31.2</u>	<u>\$ (2.1)</u>	<u>\$ 22.5</u>	<u>\$ 59.2</u>

Components of future income tax assets and liabilities are summarized as follows:

	Successor June 30 2007	Predecessor Dec. 31 2006
Future income tax assets - current		
Canadian taxes		
Accounting reserves not currently deductible for tax purposes	\$ 0.6	\$ 1.0
Other	0.6	0.7
Total current assets	<u>\$ 1.2</u>	<u>\$ 1.7</u>
Future income tax liabilities - current		
Canadian taxes		
Book basis of inventories in excess of tax basis	\$ (6.1)	\$ -
Other	(1.0)	(1.0)
Total current liabilities	<u>\$ (7.1)</u>	<u>\$ (1.0)</u>

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Future income tax assets - non-current		
Canadian taxes		
Post-employment benefit obligation	\$ 118.8	\$ 84.8
Pension benefit obligation	33.4	-
Other	<u>11.3</u>	<u>9.3</u>
	163.5	94.1
Valuation allowances	<u>(5.1)</u>	<u>(92.8)</u>
Canadian non-current assets, net	<u>\$ 158.4</u>	<u>\$ 1.3</u>
United States taxes		
Tax loss carry-forwards	\$ 42.9	\$ 46.9
Valuation allowance	<u>(42.9)</u>	<u>(46.9)</u>
United States non-current assets, net	<u>\$ -</u>	<u>\$ -</u>
Total non-current assets, net	<u>\$ 158.4</u>	<u>\$ 1.3</u>
Future income tax liabilities – non-current		
Canadian taxes		
Book basis of capital assets and intangible assets in excess of tax basis	\$ (543.2)	\$ (123.8)
Accrued pension asset	-	(7.7)
Other	<u>(3.9)</u>	<u>-</u>
Total non-current liabilities	<u>\$ (547.1)</u>	<u>\$ (131.5)</u>
Net non-current liabilities	<u>\$ (388.7)</u>	<u>\$ (130.2)</u>

Loss carry-forwards

The Predecessor's non-capital losses were reduced by approximately \$179.4 million as a result of debts being discharged under the 2002 financial reorganization for less than their principal amount. The Predecessor utilized the remainder of its non-capital losses in 2005. The foreign exchange effect of the settlement of the U.S. dollar First Mortgage Notes under the reorganization resulted in a capital loss of \$42.1 million, of which the remaining \$33.2 million was applied against capital gains realized in 2006 (2005 - \$1.0 million was applied). A future income tax asset of \$6.0 million was recognized at December 31, 2005 in respect of these capital losses.

The Predecessor's 2002 and 2003 taxation years are presently under audit by the Canada Revenue Agency ("CRA"). An adjustment relating to the discharging of debts under the 2002 financial reorganization has been proposed by the CRA that would reduce the available non-capital losses by \$21.8 million with a corresponding increase in available capital losses. Consequently, the Predecessor recorded a charge of \$3.5 million to the 2006 tax provision representing the full tax effect of the adjustment. The CRA is also reviewing the Predecessor's assignment of \$160 million as the fair market value of the 16 million common shares issued as consideration in discharging debts under the financial reorganization. The Company is defending its position with respect to the valuation, however if a reassessment is issued and the Company does not prevail through the objection process, the Company's available non-capital losses upon emergence from CCAA would be reduced by the amount of any downward adjustment to the valuation. Each \$10 million reduction in the valuation of the common shares would result in an income tax reassessment and cash taxes payable of approximately \$3.4 million plus any applicable interest. The Company believes its valuation is supportable and it is too early to assess the outcome of this issue. Consequently, no liability has been recorded in the financial statements.

Cannelton Iron Ore Company has non-capital losses of approximately U.S. \$65.6 million, of which U.S. \$27.3 million expire between 2007 and 2010, U.S. \$1.9 million in 2021 and U.S. \$36.4 million in 2022. Cannelton also has a capital loss of approximately U.S. \$52.8 million that expires in 2007 and can be applied against future capital gains.

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Scientific research and experimental development claims

For the years 2002, 2003, 2004 and 2005, the Predecessor filed scientific research and experimental development claims of \$53.0 million, \$43.4 million, \$62.8 million and \$68.9 million respectively, with Canada Revenue Agency (CRA). These claims are currently under audit by CRA and prior to the 2002 claim, the Predecessor had no history of filing claims of comparable size. The potential tax benefit of these claims is 20% of the claims or \$45.6 million. In order to recognize the tax benefit for accounting purposes, there must be reasonable assurance that the benefit will be realized. Since the claims have not had final audit assessment, the Company has only recognized part of the related tax benefit that the Company believes meets the threshold of "reasonable assurance". The total tax benefit recognized to date is \$15.7 million, of which \$4.6 million was recognized by the Predecessor in the period April 1, 2007 to June 19, 2007. The determination of the amount of tax benefit to recognize requires judgement, and is subject to change based on CRA's audit of the claims. Furthermore, the Company has not completed the determination of the 2006 claim, so no tax benefit has been recorded with respect to that year.

16. Contingencies and Commitments

Under operating leases for premises and equipment, the Company is obligated to make aggregate payments of \$7.5 million, comprised of \$1.5 million for the remainder of 2007, \$2.5 million in 2008 and \$3.5 million in subsequent years.

In January 2002, the Company's wholly-owned U.S. subsidiary, Cannelton Iron Ore Company, completed an agreement with Cleveland-Cliffs Inc. ("Cliffs") to transfer Cannelton's 45% interest in the Tilden Mining Company L.C. ("Tilden") in exchange for the assumption by Cliffs of Cannelton's share of Tilden's liabilities and no cash consideration. As part of this arrangement, the Company entered into an exclusive 15-year supply agreement with Cliffs for a minimum annual supply of 2.5 million tons of iron ore at market prices. If the Company defaults under the supply agreement prior to December 31, 2008, then 50% of the liabilities assumed by Cliffs will revert back to Cannelton and the Company. These assumed liabilities could include contingent obligations, such as environmental costs, that are not reflected in Tilden's financial statements. The Company has 9.5 years remaining with this agreement and the purchase commitment for the remainder of 2007 is approximately U.S. \$116.8 million. Under the terms of the agreement, the Company pays for its annual purchases evenly throughout the year which, at any given time, can result in prepayments. At June 30, 2007, \$41.0 million is included in prepaid expenses in this respect (December 31, 2006 - \$14.8 million).

The Company has agreements to source coal requirements until March 31, 2008 at fixed prices. The purchase commitment for the remainder of 2007 under these agreements is approximately \$69.5 million.

The Company has 8 years remaining in a contract with a single supplier for the purchase of oxygen, argon and nitrogen. The annual purchases under this contract approximate \$10.8 million.

The Company is committed to purchase approximately 2.3 million MMBtus of natural gas in the remainder of 2007 for approximately \$15.7 million.

Contractual commitments at June 30, 2007 amounted to \$47.1 million relating to authorized capital projects.

Commitments related to the construction of the new co-generation project total \$38.1 million, of which \$12.8 million is to be paid in 2007, \$23.5 million in 2008 and \$1.8 million in 2009.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of the Environment, the Company is required to install, by 2010, certain equipment in the No. 7 Blast Furnace to reduce casthouse emissions. The cost of this equipment and its installation is currently estimated at \$25-\$30 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of the Environment, the Company is required to apply technology or process changes to mitigate noise level 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 \$3 million during the period of 2007 through to 2012.

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17. Segmented Information

The Company is viewed as a single business segment involving basic steel production for purposes of internal performance measurement and resource allocation. The revenue by product group is as follows:

	Successor April 12 to June 30 2007	Predecessor April 1 to June 19 2007	Predecessor April 1 to June 30 2006	Successor April 12 to June 30 2007	Predecessor January 1 to June 19 2007	Predecessor January 1 to June 30 2006
Sheet and strip	\$ 28.2	\$ 270.0	\$ 327.7	\$ 28.2	\$ 586.5	\$ 671.0
Plate	17.4	127.6	142.8	17.4	260.0	273.1
Freight	2.8	23.2	21.1	2.8	49.4	43.5
Non-steel sales	<u>2.0</u>	<u>11.1</u>	<u>13.2</u>	<u>2.0</u>	<u>15.5</u>	<u>16.8</u>
	<u>\$ 50.4</u>	<u>\$ 431.9</u>	<u>\$ 504.8</u>	<u>\$ 50.4</u>	<u>\$ 911.4</u>	<u>\$ 1,004.4</u>

Sales to customers in the United States were approximately \$176.7 million for the period from April 1, 2007 to June 30, 2007 and \$356.6 million for the period from January 1, 2007 to June 30, 2007. For the same periods in 2006, sales to customers in the United States were \$151.2 million and \$295.1 million respectively. Export sales to other countries for the period from April 1, 2007 to June 30, 2007 were \$11.2 million (2006 - \$10.5 million) and for the period from January 1, 2007 to June 30, 2007 were \$16.9 million (2006 - \$16.9 million).

For the period from April 1, 2007 to June 30, 2007, one customer represented 13% of total sales and for the period from January 1, 2007 to June 30, 2007, no customer represented greater than 10% of total sales. For the period from April 1, 2006 to June 30, 2006, no customer represented greater than 10% of total sales and for the period from January 1, 2006 to June 30, 2006, one customer represented 12% of total sales.

At June 30, 2007, one customer represented 12% of the accounts receivable balance and at December 31, 2006, one customer represented 11% of the accounts receivable balance.

18. Other Long-Term Liabilities

	Successor June 30 2007	Predecessor December 31 2006
Environmental remediation liabilities (a)	\$ 7.0	\$ 7.4
Long-term lease obligation	<u>0.3</u>	<u>0.3</u>
	<u>\$ 7.3</u>	<u>\$ 7.7</u>

- (a) This liability represents the Company's obligations associated with the Predecessor's former iron ore mine in Wawa, Ontario. At June 30, 2007, this liability has been determined based on the Company's best estimate of the costs to be incurred, discounted at a risk-free rate of 4.59% (December 31, 2006 - 4.11%). It is expected that the costs related to this remediation will be incurred between 2007 and 2027. Changes in future conditions could require a change in this liability.

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19. Transaction Related Expenses

Transaction related expenses were incurred as follows:

	Successor April 12 to June 30 2007	Predecessor April 1 to June 19 2007
Professional and advisory fees of Predecessor	\$ -	\$ 9.1
Employment contract severance expense	-	6.7
Recognition of outstanding stock-based compensation expense	-	5.4
Bridge loan fees	<u>2.4</u>	<u>-</u>
	<u>\$ 2.4</u>	<u>\$ 21.2</u>

The Predecessor incurred \$9.1 million in transaction fees, including legal, accounting, advisory fees and other costs related to the Transaction which were not eligible to be capitalized and are included in transaction related expenses for the Predecessor period April 1, 2007 to June 19, 2007. In addition, the Predecessor incurred \$6.7 million in severance costs related to the termination of employment contracts that existed with the Predecessor.

Included in transaction related expenses for the Predecessor period April 1, 2007 to June 19, 2007 was \$5.4 million in costs related to settlement of stock-based compensation plans. As a result of the Transaction, the vesting of these stock-based instruments was accelerated, and previously unrecognized compensation expense related to these instruments was recorded at the closing of the Transaction.

20. Subsequent Event

On July 30, 2007, the Company reached agreement on the terms of new collective bargaining agreements with its unionized employees which include various wage, benefit and pension improvements. The new agreements are for the period from August 1, 2007 to July 31, 2010.