ALGOMA STEEL INC.
2001 THIRD QUARTER REPORT TO SHAREHOLDERS
for the period ended September 30, 2001

SUMMARY

The operating loss in the third quarter declined to $16.0 million from $42.9 million in the second quarter. The improvement was due mainly to lower operating costs and a writedown of a trade receivable in the second quarter. The net loss increased to $61.9 million from a $47.8 million loss in the second quarter reflecting a foreign exchange loss on the First Mortgage Notes of $22.5 million in the quarter as compared to a foreign exchange gain on the First Mortgage Notes in the second quarter of $21.8 million. Cash conservation efforts have been very successful to date, contributing to a reduction in bank indebtedness of $7.5 million in the quarter and no draw at September 30 on the Debtor-In-Possession (DIP) facility provided by the banking syndicate.

RESTRUCTURING STATUS

Algoma filed a Plan of Arrangement with the Court on October 24, 2001. This is the beginning of a formal process which is expected to result in votes by creditors and implementation of the Plan in early January, 2002. The Company has received an extension of protection under the Companies' Creditors Arrangement Act until December 10, 2001.

Algoma's wholly-owned subsidiary, Cannelton Iron Ore Company (CIOC), has reached agreement in principle with Cleveland Cliffs (Cliffs) respecting a transfer to Cliffs of CIOC's 45% interest in the Tilden Mine for the assumption by Cliffs of CIOC's share of Tilden Mine liabilities. Under this arrangement, Algoma would enter into an exclusive 15-year iron ore supply agreement with Cliffs. This transaction will result in reduced annual operating costs for Algoma. It is conditional on finalization of definitive agreements and Algoma's successful restructuring.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Management Discussion and Analysis and the annual audited consolidated financial statements and notes contained in the Corporation's 2000 Annual Report and with the interim financial statements and notes contained in this report.

Financial and Operating Results

The operating loss in the third quarter declined to $16.0 million from $42.9 million in the second quarter. A substantial reduction in operating costs and a $16.8 million writedown of a trade receivable in the second quarter were the major reasons for the improvement. Selling prices increased slightly but were a minor factor in the improvement, with average revenue per ton up $1 from the second quarter to $478 per ton. Steel markets were stronger through part of the third quarter but weakened substantially by the end of the quarter as a result of the events of September 11, 2001.

The decline in operating costs relates primarily to cost reduction initiatives and spending restraints. Other factors include lower natural gas costs and unit cost reductions originating from higher production levels. A temporary improvement in market conditions contributed to an increase in raw steel production and shipments in the quarter. Raw steel production increased by 26,000 tons from the second quarter to 585,000 tons, while shipments were higher by 22,000 tons at 506,000 tons.

The operating loss for nine months reached $111.8 million which compares to operating income of $40.3 million for the same period in 2000. The deterioration was caused mainly by a continuation of lower selling prices initially caused by a surge of imported steel in the second half of 2000 and weakness in some sectors of the economy in 2001. These factors also caused a decline in shipments and resulted in higher unit costs due to lower production volumes.

Sales in the first nine months totaled $700.2 million which is substantially lower than the $878.1 million for the first nine months of 2000. The decline was due mainly to the high level of imports and the economic downturn. Average revenue per ton declined to $473 from $556 in the first nine months of 2000, while shipments dropped by 99,000 tons to 1,480,000 tons.

The CCAA filing and defaults on certain financial covenants at the end of the first quarter resulted in a reclassification of the First Mortgage Notes liability of $550.8 million as a current liability and a related non-recurring charge to earnings of $89.7 million. This charge was composed of deferred foreign exchange losses, deferred debt issue costs and unamortized debt discounts related to the First Mortgage Notes and is classified as reorganization expenses along with various fees totaling $8.8 million related to the restructuring process.

The net loss for the third quarter includes a foreign exchange loss of $22.5 million on the First Mortgage Notes, while the second quarter results included a $21.8 million foreign exchange gain. This relates to the reclassification of the debt as current and the need to immediately record foreign exchange gains or losses rather than amortize gains or losses over the remaining term of the debt. This reclassification also results in the interest on the Notes being reported as other interest rather than interest on long-term debt. The third quarter net loss also includes reorganization expenses of $3.0 million (see note 7).

The net loss for the nine months of 2001 of $276.2 million compares to a net loss of $27.2 million in the same period for 2000. The deterioration was due mainly to the weaker steel markets and reorganization expenses of $98.5 million.

Liquidity

A cash drain from operations of $25.9 million was more than offset by a reduction in working capital of $36.7 million. Positive cash flow from operations and continuing cuts to the capital expenditure program, with only $3.9 million expended in the quarter, resulted in a reduction in bank indebtedness of $7.5 million. Bank indebtedness decreased to $142.5 million at September 30, 2001 from $150.0 million at June 30, 2001.

The Company funds its short-term lending needs through two loan agreements with a banking syndicate. A Senior Loan facility (see note 5) provides access to a maximum of $180 million to December 31, 2001 subject to various covenants and other conditions. This facility is secured by a first charge on substantially all of the Company's inventory and receivables. The Company defaulted on certain covenants in the first quarter and remains in breach of these covenants, but the banking syndicate has agreed to forbear from acting on their rights and remedies subject to certain conditions through an "Amendment and Accommodation Agreement". The Company was also provided with a Debtor-In-Possession (DIP) facility which provides financing to December 31, 2001 to a maximum of $50 million and is subject to various covenants and conditions. The Company was in compliance with these covenants at September 30, 2001. A CCAA Court order currently limits the use of the DIP facility to a maximum of $35 million. The DIP facility is secured by a first charge on fixed assets and a second charge on inventory and receivables.

The DIP facility can only be used when the full availability of the Senior facility is exhausted. At September 30, 2001, the borrowings of $142.5 million were entirely from the Senior facility with no borrowings under the DIP facility.

TRADE

In August, 2001, the Canadian International Trade Tribunal (CITT) determined that certain hot rolled carbon and alloy steel sheet products originating in or exported from Brazil, Bulgaria, China, Chinese Taipei, India, Macedonia, South Africa, Ukraine and Yugoslavia and the subsidizing of the goods originating in or exported from India have caused material injury to the domestic industry. As a result of the injury finding, dumping and countervailing duty (India only) will be applied to imports from those countries. The CITT also determined that imports from Korea, New Zealand and Saudi Arabia have not caused and were not threatening to cause injury to the domestic industry. The finding is being challenged at the Federal Court by one of the Chinese exporters.

In October, the United States International Trade Commission ruled, in their global safeguard investigation under Section 201 of the Trade Act of 1974, that global imports of many steel products were injuring the domestic steel industry. The ruling found that flat rolled steel products imported from Canada were not injuring the U.S. industry with the result that it recommended that Canada be excluded on those products from any remedies that will be applied to other countries. The matter is now referred to the President's office for his determination of an appropriate remedy. The U.S. finding of injury against offshore imports is in stark contrast to the CITT decisions in the Canadian cases.

In a ruling in early October, the CITT determined that certain cold rolled steel sheet products originating in or exported from Brazil, China, Chinese Taipei, Korea and South Africa have not caused injury or retardation and are not threatening to cause injury to the domestic industry. The Company is astonished by the CITT's determination in the cold rolled case and in the hot rolled determination relating to Korea. The CITT's failure to find injury in circumstances where the Canadian steel industry has so manifestly suffered grievous harm at the hand of unfairly traded imports is very difficult to understand. The Company continues to work with the Government of Canada in the ongoing effort to provide appropriate measures to safeguard the Canadian steel industry from unfairly traded steel.

Algoma is carefully monitoring the imports of steel entering the Canadian market from offshore producers and is very concerned that imports destined to the U.S. may now be diverted to the Canadian market which has been left extremely vulnerable due to the CITT decisions.

OUTLOOK

The deterioration in economic conditions following the events of September 11, 2001 has contributed to weaker demand for steel. This, combined with seasonal low shipments in December, will result in reduced shipments in the quarter. An improvement in market conditions is expected at some point in 2002.

A. Adam
President and
Chief Executive Officer

H.E. Joudrie
Chairman of the Board

Sault Ste. Marie, Ontario
November 2, 2001

Algoma Steel Inc.
Consolidated Statements of Loss and Retained Earnings (Deficit) *(Unaudited)*
(millions of Canadian dollars - except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	**2001**	2000
Sales	**$ 241.8**	$ 269.9	**$ 700.2**	$ 878.1
Operating expenses				
Cost of sales	**230.3**	237.7	**731.1**	753.4
Administrative and selling	**9.8**	10.0	**28.3**	29.5
Depreciation and amortization	**17.7**	18.1	**52.6**	54.9
	257.8	265.8	**812.0**	837.8
Income (loss) from operations	**(16.0)**	4.1	**(111.8)**	40.3
Financial expenses (note 6)				
Interest on long-term debt	**-**	16.0	**16.5**	47.7
Foreign exchange loss on First Mortgage Notes	**22.5**	1.3	**2.9**	3.4
Other interest	**20.0**	4.9	**45.1**	13.5
	42.5	22.2	**64.5**	64.6
Loss before reorganization expenses	**(58.5)**	(18.1)	**(176.3)**	(24.3)
Reorganization expenses (note 7)	**3.0**	-	**98.5**	-
Loss before income taxes	**(61.5)**	(18.1)	**(274.8)**	(24.3)
Provision for income taxes - current	**0.4**	0.5	**1.4**	1.8
- future	**-**	0.7	**-**	1.1
	0.4	1.2	**1.4**	2.9
Net loss	**$ (61.9)**	$ (19.3)	**$ (276.2)**	$ (27.2)
Net loss per common share	**$ (1.16)**	$ (0.36)	**$ (5.15)**	$ (0.51)
Weighted average number of common shares outstanding - millions	**53.65**	53.33	**53.65**	53.21
Retained Earnings (Deficit)				
Balance, beginning of period	**$ (85.8)**	$ 180.8	**$ 128.5**	$ 148.4
Net loss	**(61.9)**	(19.3)	**(276.2)**	(27.2)
Pension and income tax adjustment	**-**	-	**-**	40.3
Balance, end of period	**$ (147.7)**	$ 161.5	**$ (147.7)**	$ 161.5

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)				
Raw steel production	**585**	613	**1,640**	1,848
Steel shipments	**506**	488	**1,480**	1,579

See accompanying notes.

Algoma Steel Inc.
Consolidated Statements of Financial Position *(Unaudited)*
(millions of Canadian dollars)

	September 30 2001	December 31 2000
Current assets		
Accounts receivable (note 4)	**$ 163.8**	$ 162.1
Inventories	**244.1**	305.4
Prepaid expenses	**7.3**	3.7
	415.2	471.2
Other assets		
Fixed assets, net	**849.7**	885.1
Deferred charges	**-**	37.5
Future income tax asset	**53.9**	51.2
	903.6	973.8
Total assets	**$ 1,318.8**	$ 1,445.0
Current liabilities		
Liabilities not subject to compromise		
Bank indebtedness (note 5)	**$ 142.5**	$ 107.3
Accounts payable and accrued liabilities	**125.4**	167.3
Income and other taxes payable	**10.5**	10.0
Current portion of long-term debt	**0.8**	0.7
Liabilities subject to compromise (note 3)	**652.1**	-
	931.3	285.3
Other liabilities		
Liabilities not subject to compromise		
Long-term debt, net of current portion	**1.5**	495.9
Accrued pension liability and post-employment benefit obligation	**15.9**	428.4
Liabilities subject to compromise (note 3)	**410.9**	-
	428.3	924.3
Shareholders' equity (deficiency)		
Common shares (note 8)	**188.0**	188.0
Shareholders' deficiency on 1992 restructuring	**(81.1)**	(81.1)
Retained earnings (deficit)	**(147.7)**	128.5
	(40.8)	235.4
Total liabilities and shareholders' equity (deficiency)	**$ 1,318.8**	$ 1,445.0

See accompanying notes.

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

	Three months ended September 30		Nine months ended September 30	
	2001	2000	**2001**	2000
Cash provided by (used in)				
Operating activities				
Net loss	**$ (61.9)**	$ (19.3)	**$ (276.2)**	$ (27.2)
Adjustment for items not affecting cash	**36.0**	26.4	**147.4**	71.0
	(25.9)	7.1	**(128.8)**	43.8
Changes in operating working capital	**36.7**	(30.2)	**110.4**	(71.4)
	10.8	(23.1)	**(18.4)**	(27.6)
Investing activities				
Fixed asset expenditures	**(3.9)**	(14.0)	**(17.1)**	(38.3)
Financing activities				
Net proceeds from (repayment of) long-term debt	**0.6**	0.2	**0.3**	(0.1)
Net proceeds from common shares issued	**-**	0.1	**-**	0.6
Financing expenses	**-**	-	**-**	(0.5)
Increase (decrease) in bank indebtedness	**(7.5)**	36.8	**35.2**	65.9
	(6.9)	37.1	**35.5**	65.9
Cash				
Change during the period	**-**	-	**-**	-
Balance, beginning of period	**-**	-	**-**	-
Balance, end of period	**$ -**	$ -	**$ -**	$ -

See accompanying notes.

Algoma Steel Inc.
Notes to Interim Consolidated Financial Statements *(Unaudited)*
(millions of Canadian dollars)

1. **Financial restructuring and basis of presentation**

On April 23, 2001 (the "Filing Date"), the Company obtained protection under the Companies' Creditors Arrangement Act ("CCAA") in the Ontario Superior Court of Justice (the "Court"). The Company has received several extensions and has recently been granted an extension of its CCAA protection until December 10, 2001. This allows the Company to continue operating as it negotiates a restructuring plan with its stakeholders by preventing legal action being brought against the Company and by staying substantially all unsecured and undersecured claims as of the Filing Date (note 3). Additional financing has been obtained providing for continuing operations through the anticipated restructuring period (note 5).

On October 24, 2001, the Company filed a Plan of Arrangement and Reorganization (the "Plan") with the Court which provides for contributions from all stakeholders that will significantly reduce costs and improve cash flow in future years. The Plan provides for, among other things:

- the cancellation of currently outstanding common shares and the issuance of new common shares;
- the cancellation of the First Mortgage Notes and related interest obligation in exchange for $150 million of new debt and 75% of the new common shares;
- a payment of $2 million in cash and 5% of the new common shares in satisfaction of the claims of the unsecured creditors;
- the issuance of 20% of the new common shares to employees and new collective bargaining agreements which will include wage and benefit reductions, pension benefit changes and manning reductions; and
- a new board of directors.

The Plan must be approved by the employees and by each class of creditor of the Company. It may be amended prior to the votes. If no Plan can be confirmed among all stakeholders, the Company may face liquidation of its assets under the Bankruptcy and Insolvency Act.

The unaudited interim consolidated financial statements have been prepared on a "going concern" basis in accordance with Canadian generally accepted accounting principles ("GAAP"). This assumes that the Company 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. These assumptions are subject to significant uncertainty due to the CCAA reorganization proceedings, the Company's current debt structure and recent operating losses and cash flow problems.

These consolidated financial statements do not reflect any adjustments that would be necessary if the "going concern" principle was not appropriate. If the "going concern" principle was not appropriate, significant adjustments would be required in the carrying values of assets and liabilities, reported revenues and expenses, and the consolidated balance sheet classifications used.

Algoma Steel Inc.
Notes to Interim Consolidated Financial Statements *(Unaudited)*
(millions of Canadian dollars)

2. **Accounting Policies**

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP on a basis consistent with those described in the fiscal 2000 Annual Report. This requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management believes that the estimates are reasonable, however, actual results could differ from these estimates. The interim consolidated financial statements do not conform in all respects to the requirements of Canadian GAAP for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the financial statements and notes included in the fiscal 2000 Annual Report.

3. **Liabilities subject to compromise**

The principal categories of obligations stayed under the CCAA and classified as liabilities subject to compromise are identified below. The Company believes that provisions have been made in the consolidated financial statements for all potential claims that could reasonably be estimated at September 30, 2001. The amounts of the claims to be filed by creditors could be significantly different than the amount of the liabilities recorded by the Company.

Current	
12.375 % First Mortgage Notes due 2005 (U.S. $349 million)	$ 551.5
Accrued interest on First Mortgage Notes	48.4
Accounts payable	52.2
	652.1
Other	
Accrued pension liability	265.1
Accrued post-employment benefit obligation	145.8
	410.9
	$1,063.0

4. **Accounts receivable**

On May 16, 2001, one of the Company's customers filed for and received CCAA protection from its creditors. At September 30, 2001, a bad debt allowance of $16.8 million has been recorded against the entire account receivable stayed under the CCAA.

5. **Banking facilities**

The Company's Revolving Credit Facility ("Senior Loan Facility") which expires on December 31, 2001 was amended effective April 23, 2001. The Amendment and Accommodation Agreement addressed several covenant defaults which occurred at the end of the first quarter and reduced the availability under this facility to the lesser of $180 million and a borrowing base determined by the levels of the Company's accounts receivable and inventories less certain reserves. The facility is secured by a first charge on the Company's accounts receivable and inventories. Under the Senior Loan Facility, the Company may borrow in either Canadian or United States (U.S.) funds at 4.5% over either the Canadian or U.S. prime bank rate or, at the Company's option, at 5.5% over the bankers' acceptance rate or London interbank offering rate (LIBOR) for $U.S. loans.

Algoma Steel Inc.
Notes to Interim Consolidated Financial Statements *(Unaudited)*
(millions of Canadian dollars)

In addition to the Senior Loan Facility, effective April 23, 2001, in conjunction with filing for protection under the CCAA, the Company was provided with a Debtor-in-Possession ("DIP") Facility by the existing banking syndicate. The DIP Facility provides financing to a maximum of $50 million to December 31, 2001 and is secured by a first charge on fixed assets and a second charge on inventories and receivables. The Company is required to meet certain covenants relating to capital expenditures, liquidity and EBITDA (earnings before interest, taxes, depreciation and amortization, foreign exchange on First Mortgage Notes and reorganization expenses). The CCAA Court order currently limits the use of the DIP Facility to a maximum of $35 million. Under the DIP Facility, the Company may borrow in either Canadian or United States (U.S.) funds at 2.5% over either the Canadian or U.S. prime bank rate or, at the Company's option, at 3.5% over the bankers' acceptance rate or London interbank offering rate (LIBOR) for $U.S. loans.

6. **Long-term debt**

At the end of each fiscal quarter in 2001, the Company was in violation of financial covenants with respect to its First Mortgage Notes, resulting in the Notes being reclassified as a current liability subject to compromise under the CCAA (note 3). Accordingly, gains and losses resulting from the translation of the $U.S. denominated Notes are now recorded in the consolidated statement of loss as incurred. For the three and nine-month periods ended September 30, 2001, accrued interest on the Notes in the amounts of $16.7 million and $33.4 million, respectively, has been classified with other interest in the consolidated statement of loss. The consolidated financial statements for the interim period ended March 31, 2001 have been restated to reflect a charge of $89.7 million comprised of deferred foreign exchange losses, deferred debt issue costs and unamortized debt discount (note 7).

7. **Reorganization expenses**

Reorganization expenses for the three and nine-month periods ended September 30, 2001 were as follows:

	Three months ended September 30	Nine months ended September 30
Professional fees and other costs	$ 3.0	$ 8.8
Deferred exchange loss on First Mortgage Notes	-	53.0
Unamortized discount on First Mortgage Notes	-	29.5
Deferred debt issue costs	-	7.2
	$ 3.0	$ 98.5

8. **Share capital**

At September 30, 2001, there were 53.65 million common shares issued and outstanding.

CORPORATE AND INVESTOR INFORMATION

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