



ALGOMA STEEL INC.
105 West Street
Sault Ste. Marie, Ontario, Canada P6A 7B4

NEWS RELEASE
Tuesday, October 25, 2005

TSX Symbol: AGA

Algoma Rejects Paulson Demand

SAULT STE. MARIE, ONTARIO – Algoma Steel Inc. announced today that its Board of Directors has received and rejected a demand from Paulson & Co. Inc. that Algoma undertake a capital reorganization that would result in a substantial reduction in the Company's liquidity. Paulson's demand was contained in a letter to the Board stating that, if the Algoma Board is unwilling to implement the proposal, Paulson will requisition a special meeting of Algoma shareholders with the purpose of electing a new slate of directors which would carry out its proposal. The text of the letter is appended to this news release.

Paulson holds or controls approximately 19% of Algoma's outstanding shares. Its proposal is that Algoma refinance its outstanding 11% Notes with a new \$200 million debt issue and use the proceeds from that issue, together with existing cash on hand, to distribute approximately \$420 million of cash to shareholders.

Algoma's Board has already distributed a special dividend and made a normal course issuer bid in 2005. The Board will continue to consider future distributions of cash to shareholders, provided the cash distributions are, in the Board's view, consistent with the Company's other needs. The Board noted, however, that the steel industry is entering a period of uncertainty with respect to the cost of raw materials and the pricing of steel products. The Board believes it is appropriate in this environment to maintain a significant level of liquidity, which would be compromised under Paulson's proposal.

During 2005, the Algoma Board has conducted an extensive strategic review and considered a number of alternatives for the Company. The alternatives considered included making acquisitions, distributing cash to shareholders and the sale of the Company. This review culminated in the announcement of the special dividend and the normal course issuer bid in August, which together amount to a distribution of over \$300 million of cash to shareholders, the maximum amount permitted under the restrictive covenants attached to Algoma's outstanding 11% Notes which the Company intends to redeem in January, 2006. Throughout this strategic process, the Board has been open to discussing strategic alternatives with Algoma shareholders and will continue to be open to such discussions in the future.

"Paulson's proposal involves drastically reducing Algoma's cash position as the Company goes into an uncertain time in the steel industry's cycle. Such a step is not in the best interests of the Company or its shareholders" said Ben Duster, the Chairman of Algoma's Board. "Our Board has been consistently proactive in its efforts to maximize shareholder value. Initially, we sought the sale of the Company. When an acceptable transaction could not be achieved, we distributed to shareholders the maximum amount of cash permitted under our debt covenants by way of the special dividend and the normal course issuer bid. We will make further shareholder distributions when it is prudent to do so in the context of the Company's cash needs."

Algoma Steel Inc. is an integrated steel producer based in Sault Ste. Marie, Ontario. Revenues are derived primarily from the manufacture and sale of rolled steel products including hot and cold rolled sheet and plate.

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**PAULSON
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October 21, 2005

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Board of Directors
Algoma Steel Inc.
105 West Street
Sault Ste. Marie, ON P6A 7B4
CANADA

Attn: Mr. Denis Turcotte, CEO
Mr. Benjamin Duster, Chairman

Re: Proposal to Enhance Shareholder Value

Dear Sirs,

Paulson & Co. Inc. ("Paulson") and the investment funds and separate accounts managed by it (collectively with Paulson, the "Paulson Funds"), as of the close of business yesterday beneficially owned or controlled 7,416,287 shares of Algoma Steel Inc. ("Algoma" or the "Company"), representing approximately 19.0% of Algoma's outstanding shares as of September 30, 2005. Based on public filings, we believe that we are by far the largest shareholder of the Company.

As the third quarter earnings announcement draws near, we feel that it is critically important for us to express our views concerning the Company's highly inefficient capital structure. For more than a year Algoma has been severely undervalued, the cheapest publicly traded steel company in the world on a multiples basis. We strongly believe that if the company's capital structure is not improved, the stock price will remain depressed.

We are extremely disappointed at the results of the strategic process run earlier this year. The board wasted valuable time at a peak in the steel cycle pursuing Stelco, which is larger than Algoma, competing with all the major steel companies of the world. It only began the strategic process in February 2005 after steel prices had started to cool. After six months of talking to advisors and debating alternatives, the board failed to obtain any offers to purchase the company which it felt comfortable recommending and in August 2005 declared a special dividend, the worst possible means of distributing excess cash to shareholders. The special dividend gave cash to all shareholders, whether they wanted cash or equity, and it did nothing to reduce shares outstanding. In addition, non-Canadian shareholders were hit with a punitive 25% withholding tax. Algoma's stock price fell dramatically from \$31 per share to \$26 per share on an adjusted basis (\$20 per share plus the \$6 face value of the special dividend, even counting the \$1.50 per share withholding tax). This represents 16% destruction in shareholder value.

For two months after the special dividend was declared, the Company's stock has remained depressed. It is clear that something must be done to help Algoma shareholders realize value. Since the board has not done so through the strategic process, we propose a corporate reorganization. Algoma should exchange:

- 40% of its shares for \$26 in cash; and
- the remaining 60% for shares in a new company that would continue the business.

In making this proposal, we are not seeking any economic rights for the Paulson Funds other than to participate *pro rata* with all shareholders in the resulting benefits.

Even pro forma for the special dividend, Algoma has \$458 million of cash on its balance sheet -- \$11.55 per share, over half of the company's current market capitalization -- and very little debt. We have listened to management's ideas for the use of some of this cash, which include a "rainy day" fund, working capital as well as potential acquisitions. We do not disagree with the need for a company in the cyclical steel industry to have a cash reserve, but we are concerned that management may dissipate this cash reserve through acquisitions and/or marginal capital investments. After refinancing the Company's current debt, we believe that the Company can easily return up to \$420 million of cash to shareholders and still be left with a sufficient cash reserve and net debt of less than next year's EBITDA.

Such a transaction would have substantial benefits to Algoma shareholders. It would reduce the number of outstanding shares, resulting in earnings per share accretion of 57% pro forma for fiscal year 2005 and 28% for fiscal year 2006, based on consensus analyst estimates. After consultations with our Canadian tax counsel, we believe that a return of cash to Algoma shareholders can be done in a tax-efficient manner, without withholding tax. There would be a mix-and-match election whereby shareholders who want certain value above recent market prices will be able to elect more cash, and shareholders who value the earnings accretion will be able to elect more stock in the reorganized company. This would create a more efficient capital structure, combined with a refinancing of Algoma's 11% notes due 2009 with a \$200 million ten-year senior note issue. Based on the June 30, 2005 balance sheet and giving no credit for cash build in the second half of the year (\$128 million of EBITDA by consensus estimates), the pro forma company would have \$84 million in cash, \$116 million of net debt, and no debt maturity for ten years. The company would have lower interest payments and would not face the restrictive financial covenants contained in the current note indenture.

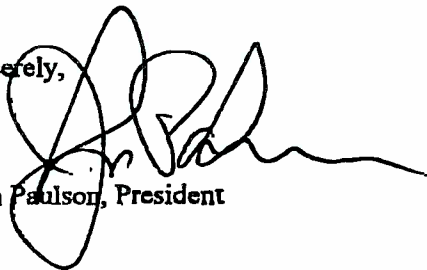
The financial case for such a reorganization is compelling. Based on the most recent closing stock price of \$20.50 per share, Algoma has a market capitalization of \$810 million and an enterprise value of \$505 million (reflecting \$458 million in cash and \$153 million of debt). This represents a multiple of 2.7x expected 2006 EBITDA of \$193 million, at a time when comparable steel companies are trading at a mean 2006 EBITDA multiple of 4.2x. After adding tax-effected retirement obligations to enterprise value and associated expense back to EBITDA, Algoma still trades at a substantial discount to its peers. The company's cash reserves are masking the true value of the operating business, and vice versa. By using the company's excess cash to buy back a substantial amount of the company's stock in a tax-efficient manner, the board would start to close this dramatic gap in valuation. Shareholders would either receive \$26.00 in cash, a 27% premium to Algoma's last closing price, or stock that would have 28% more 2006 earnings per share than now, implying comparable appreciation at a constant earnings multiple. In addition, a meaningful share repurchase would convey a powerful message to the equity markets about the board's confidence in the Company's future and discipline in the Company's operations.

We strongly urge the Algoma board of directors to carry out a corporate reorganization as a means of enhancing shareholder value. In the event that the board is unwilling to do so, we ask that the independent directors step aside so that a new majority of directors who are open to the proposal can be appointed. In the event that we do not hear by the close of business on Thursday, October 24th, 2005, that the Algoma board will support a reorganization or step aside so others can do so, we are prepared to make our proposal public, requisition a special meeting of shareholders, and campaign for the election of a new shareholder-friendly board majority. We are confident that the vast majority of the Company's shareholders would be highly supportive of our reorganization proposal.

In bringing this proposal to you, we are seeking to enhance shareholder returns by a means which until today has been ignored by the Board of Directors. Again, we express our confidence in the operational abilities of Algoma's Chief Executive Officer and we should make it clear that a change of CEO is not intended. However, should Denis Turcotte not be willing to stay on, we are in the process of making alternative arrangements.

We would appreciate your acknowledgement of receipt of this letter, and we look forward to your soonest reply. I may be reached at the number above or you may speak to Michael Waldorf, Vice President of our firm, at +1 212 956-2472.

Sincerely,



John Paulson, President