Algoma

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

NEWS RELEASE
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Algoma Steel Inc. Announces Fourth Quarter And Annual Results

SAULT STE. MARIE, ONTARIO – Algoma Steel Inc. today released its unaudited fourth quarter and annual results for 2006.

Fourth Quarter Highlights:

- EBITDA of $64.2 million ($69.2 million including foreign exchange gain).
- Net income of $50.4 million or $1.57 per share.
- Pension prepayment reduces tax liability.
- Cash and short-term investments of $175.1 million.

Algoma Steel Inc. reported net income of $50.4 million for the three months ended December 31, 2006 or $1.57 per common share on a diluted basis. This compares to net income of $59.5 million in the third quarter and $55.0 million in the fourth quarter of 2005. EBITDA for the fourth quarter was $64.2 million compared to $112.3 million in the third quarter and $77.6 million in the fourth quarter of 2005. The decrease from the third quarter was due mainly to lower volumes, which declined 88,000 tons or 14% and lower average steel prices that declined $53 per ton. In the fourth quarter, cash and short-term investments decreased by $34.2 million primarily due to an additional $85.0 million of pension funding in the quarter.

Denis Turcotte, President and Chief Executive Officer, commented, “As expected, the fourth quarter was full of challenges as inventory rationalization at the service centers and high imports resulted in softer market conditions and a corresponding reduction in volumes and lower steel prices. Despite these dynamics, the Company maintained solid operating results generating EBITDA of $64.2 million and earnings per share on a diluted basis of $1.57. Despite increased investments in inventories, we ended the year with $175.1 million in cash and short-term investments after prepaying $85.0 million of future pension funding obligations. We remain cautiously optimistic going into 2007 as there are early indications that service center inventory levels are beginning to decline with both volumes and pricing responding accordingly. Our employees remain focused on running the business in the context of challenging markets and continue to drive improvements across the Company.”

Financial highlights for the fourth quarter 2006 compared to previous quarters:

	2006				2005
	Q4	Q3	Q2	Q1	Q4
	($ millions except per share data)				
Sales	$418.4	$516.9	$504.8	$499.6	$477.6
EBITDA (1)	$64.2	$112.3	$124.1	$80.5	$77.6
Operating Income	$50.4	$97.2	$110.7	$66.2	$63.5
Income Before Taxes	$57.4	$100.2	$110.4	$60.7	$62.3
Net Income	$50.4	$59.5	$79.2	$32.7	$55.0
Net Income Per Share:					
- Basic	$1.58	$1.62	$2.07	$0.85	$1.39
- Diluted	$1.57	$1.61	$2.06	$0.84	$1.38
Basic weighted average number of common shares outstanding (millions)	31.90	36.77	38.23	38.61	38.66
Steel Revenue Per Ton Shipped	$721	$774	$753	$737	$751
EBITDA Per Ton Shipped (1)	$120	$181	$199	$125	$133

Steel Shipments (000's of net tons)

	2006				2005
	Q4	Q3	Q2	Q1	Q4
Sheet	420	486	491	523	460
Plate	114	136	134	120	122
Total	534	622	625	643	582

(1) Earnings before interest, taxes, depreciation and amortization, foreign exchange, investment income, other income and premium on redemption of the 11% Notes. This earnings measure is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles ("GAAP"). Non-GAAP earnings measures (such as EBITDA) do not have any standardized meaning and therefore may not be comparable to similar measures presented by other companies. The Company considers EBITDA to be a meaningful indicator of operations and uses it as a measure to assess its operating performance. It is included because the Company believes it can be useful in measuring its ability to service debt, fund capital expenditures and expand its business. EBITDA is also used by investors, analysts and the Company's lenders as a measure of the Company's financial performance.

For further details, please see the Consolidated Financial Statements and Management's Discussion and Analysis below.

Fourth Quarter Results

The following table summarizes the operating results of the Company for the fourth quarter ended December 31, 2006 and 2005:

Consolidated Results of Operations

(in millions of dollars except per share amounts)	FOURTH QUARTER **2006**	2005
(Unaudited)		
Sales	**$ 418.4**	$ 477.6
Cost of sales	**(337.9)**	(374.4)
Gross margin	**80.5**	103.2
Gross margin percentage	**19.2%**	21.6%
Administrative and selling expense	**(16.3)**	(25.6)
Amortization	**(15.3)**	(14.1)
Other income	**1.5**	-
Income from operations	**50.4**	63.5
Financial income (expense)	**7.0**	(1.2)
Income before income taxes	**57.4**	62.3
Income taxes	**(7.0)**	(7.3)
Net income	**$ 50.4**	$ 55.0
Net income per common share:		
Basic	**$ 1.58**	$ 1.39
Diluted	**$ 1.57**	$ 1.38
Weighted average number of common shares outstanding – millions:		
Basic	**31.90**	39.53
Diluted	**32.16**	39.77

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)		
Raw steel production	**651**	671
Steel shipments	**534**	582

Sales

Sales for the fourth quarter of 2006 were $418.4 million, $98.5 million lower than the previous quarter and $59.2 million lower than the comparable period in 2005. The decrease from the previous quarter and the fourth quarter of 2005 was the result of lower average selling prices and lower shipments. Steel prices averaged $721 per ton in the fourth quarter as compared to $774 per ton in the third quarter and $751 per ton in the fourth quarter of 2005. Steel shipments totaled 534,200 tons for the fourth quarter of 2006, 88,200 tons lower than the previous quarter and 48,300 tons lower than the fourth quarter of 2005. Abnormally high customer inventory levels and continued high levels of imports impacted fourth quarter performance. In addition, the Company implemented the first phase of its new SAP Enterprise Resource Planning System late in the fourth quarter and, typical with the commissioning of a system of this complexity, experienced start-up issues that impacted shipping capabilities. The Company expects to recover these delayed shipments in the first quarter of 2007.

Net income and Earnings Per Share

Net income for the three months ended December 31, 2006 was $50.4 million compared to $59.5 million for the third quarter of 2006 and $55.0 million for the comparable quarter of 2005. The decrease in net income from the previous quarter and from the fourth quarter of 2005 was mainly due to lower shipments and lower average selling prices, partially offset by a lower effective tax rate versus the third quarter.

Earnings per share on a basic and diluted basis were $1.58 and $1.57 respectively in the fourth quarter of 2006 as compared to $1.62 and $1.61 in the third quarter and $1.39 and $1.38 in the fourth quarter of 2005. In addition to changes in earnings over these periods, earnings per share reflect the reduction in shares outstanding due to share buybacks through the year. The weighted average diluted shares outstanding were 32.2 million in the fourth quarter of 2006 as compared to 37.0 million in the third quarter and 39.8 million in the fourth quarter of 2005.

EBITDA

The following table shows the reconciliation of EBITDA and net income in accordance with GAAP:

	FOURTH QUARTER	
(in millions of dollars)	**2006**	2005
Net income	**$ 50.4**	$ 55.0
Amortization	**15.3**	14.1
Interest expense (net of interest income)	**(2.0)**	0.7
Foreign exchange loss (gain)	**(5.0)**	0.5
Other (income) expense	**(1.5)**	-
Income taxes	**7.0**	7.3
EBITDA	**$ 64.2**	$ 77.6

EBITDA for the fourth quarter was $64.2 million compared to $112.3 million for the previous quarter and $77.6 million for the fourth quarter of 2005. The decline from the previous quarter was mainly attributable to lower selling prices, which declined $53 or 6.8%, and lower shipments which declined 88,200 tons or 14.2%. The decline from the comparable quarter in 2005 was also mainly due to lower selling prices and lower shipments, partially offset by lower manufacturing costs resulting primarily from lower natural gas and iron ore costs, offset by higher coal and employment costs. Coke sales in the fourth quarter of 2006 were 10,591 tons that contributed $2.2 million to EBITDA versus coke sales of 10,500 tons in the third quarter that contributed $2.6 million to EBITDA and coke sales of 27,200 tons in the fourth quarter of 2005 that contributed $7.9 million to EBITDA.

Cost of Sales

Cost of sales before employees' profit sharing for the fourth quarter of 2006 was $334.3 million versus $378.4 million for the third quarter of 2006 and $368.5 million for the fourth quarter of 2005. The decrease over the third quarter of 2006 was mainly due to lower shipments. The decrease over the comparable period of 2005 was primarily due to lower shipments and lower natural gas costs, offset by higher coal and employment costs. Excluding employees' profit sharing expense, cost of sales per ton shipped for steel products was $568 per ton for the fourth quarter of 2006 versus $556 per ton for the previous quarter and $576 per ton for the fourth quarter in 2005. The increase from the previous quarter was primarily due to product mix and increased coal prices. The decrease from the comparable period in 2005 was mainly attributable to product mix and lower natural gas costs, offset by higher coal costs.

Approximately 20,000 tons of finished goods produced from purchased slabs were sold in the fourth quarter and these additional sales generated approximately an additional $0.1 million of operating income. This compares to approximately 70,000 tons of finished goods produced from purchased slabs that were sold in the third quarter generating approximately $4.4 million of operating income. For the entire year, approximately 165,000 tons of finished goods produced from purchased slabs were sold generating approximately $10.5 million of operating income.

A $3.6 million ($7 per ton) expense for employees' profit sharing was recorded in the fourth quarter versus an $8.4 million expense ($14 per ton) for the third quarter and $5.9 million ($10 per ton) for the fourth quarter of 2005.

Raw steel production for the three months ended December 31, 2006 totaled 651,000 tons versus 662,000 tons for the previous quarter and 671,000 tons for the fourth quarter of 2005.

Administrative and Selling Expense

Administrative and selling expenses totaled $16.3 million in the fourth quarter of 2006 as compared to $17.8 million for the third quarter and $25.6 million for the fourth quarter of 2005. The higher expenditures in the fourth quarter of 2005 were primarily due to $9.8 million of costs that either did not re-occur in the fourth quarter of 2006 or were recognized in previous quarters including donations to the local hospital, consulting fees related to research and development tax credits and management bonuses.

Amortization

Amortization of property, plant and equipment was $15.3 million for the fourth quarter of 2006 as compared to $14.6 million for the third quarter of 2006 and $14.1 million for the fourth quarter in 2005.

Financial Income (Expense)

Interest expense was $0.5 million for the fourth quarter of 2006 as compared to $0.4 million for the third quarter and $4.4 million for the fourth quarter of 2005. The reduction in interest expense in the fourth quarter of 2006 as compared to 2005 was due to the redemption of the 11% Notes on January 3, 2006. Investment income was $2.5 million for the fourth quarter of 2006 as compared to $3.7 million for the third quarter of 2006 and $3.7 million for the fourth quarter of 2005. The differences in investment income are due to fluctuations in interest rates and the balances of cash and cash equivalents and short-term investments that were lower in the fourth quarter as compared to previous quarters due primarily to the $200.0 million share buyback completed late in the third quarter of 2006.

A net foreign exchange gain of $5.0 million was realized in the fourth quarter of 2006 as compared to a loss of $0.3 million in the third quarter of 2006. These gains and losses relate to U.S. dollar exposure on cash, accounts receivable and accounts payable.

Provision for Income Taxes

The fourth quarter provision for income taxes was $7.0 million (effective rate of 13.9%) compared to $40.7 million (effective rate of 40.6%) in the third quarter of 2006 and $7.3 million (effective rate of 11.7%) in the fourth quarter of 2005. The fourth quarter provision includes a tax benefit of $21.3 million (2006 cash tax savings of $29.0 million) related to the $85.0 million of pension plan prepayments made in December 2006. The following table provides a reconciliation of the statutory tax amounts and rate to the actual provision for each quarter:

	Q4 2006		Q3 2006		Q4 2005	
	$	%	$	%	$	%
Tax Provision at the Statutory Manufacturing and Processing Rate	$ 19.6	34.1%	$ 34.2	34.1%	$ 21.3	34.1%
Provision for reassessment of prior tax years	3.5	6.1	-	-	-	-
Change in Future Tax Asset Valuation Allowance:						
Impact of Pension Expense	2.8	4.8	3.5	3.5	4.6	7.4
Impact of Pension Funding	(21.3)	(36.8)	-	-	(20.7)	(33.2)
Impact of Post-Employment Expenses	3.3	5.7	2.6	2.6	2.3	3.7
	(15.2)	(26.3)	6.1	6.1	(13.8)	(22.1)
Other	(0.9)	(1.5)	0.4	0.4	(0.2)	(0.3)
Actual Tax Provision	$ 7.0	12.4%	$ 40.7	40.6%	$ 7.3	11.7%

A $50.0 million ($44.0 million of pre-funding and a $6.0 million adjustment to 2005 funding requirements) pension contribution in December 2005 resulted in the reduction of valuation allowances against future income tax assets and a reduction in the tax expense in the fourth quarter of 2005. This prepayment of a portion of the 2006 funding obligation eliminated normal pension funding in the first nine months of 2006 and resulted in an increase to the income tax provision for that period. The current portion of the income tax provision in the quarter, which will result in cash taxes payable, was ($3.5) million versus $37.5 million in the third quarter of 2006 and $5.0 million for the fourth quarter of 2005. The effective tax rate for the fourth quarter of 2006 is significantly lower than the Company's statutory rate of 34% due to the tax benefit related to the $85.0 million of pension plan prepayments.

The long-term future income tax liability of $130.2 million at December 31, 2006 primarily reflects cumulative tax depreciation deducted in excess of book amortization.

Pension and Post Employment Benefits

Pension and post employment benefit expenses for the fourth quarter were $12.5 million (2005-$13.4 million) and $7.9 million (2005-$6.8 million) respectively. The Company made an advanced contribution to its pension plans of $85.0 million in December in order to reduce cash taxes payable in February 2007, improve the funded status of the plan, and generate higher returns on the pension fund assets as compared to cash balances. A similar payment of $50.0 million was made in December 2005. As a result of the prepayment, the Company does not expect to resume monthly pension contributions until after the first quarter of 2008.

Financial Resources and Liquidity

Summary of Cash Flows

	FOURTH QUARTER	
(in millions)	**2006**	2005
Operating activities:		
Cash flow from operations before changes in non-cash operating working capital	**$ (7.6)**	$ 29.0
Changes in non-cash operating working capital	**-**	(22.4)
	(7.6)	6.6
Investing activities:		
Acquisition of property, plant and equipment	**(27.0)**	(17.2)
Decrease (increase) in short-term investments	**3.5**	(1.8)
Other	**0.5**	0.1
	(23.0)	(18.9)
Financing activities:		
Purchase and cancellation of shares	**-**	(8.1)
Other	**-**	0.3
	-	(7.8)
Change in cash during the period	**$ (30.6)**	$ (20.1)

Cash flow from operations in the fourth quarter of 2006, before changes in non-cash operating working capital, was ($7.6) million as compared to $29.0 million in 2005. The decrease was attributable primarily to lower net earnings of $4.6 million and pension plan prepayments which increased by $41.0 million as compared to the fourth quarter of 2005. Exclusive of pension plan prepayments of $85.0 million in 2006 and $44.0 million in 2005, cash flows from operating activities total $77.4 million in 2006 and $73.0 million in 2005, representing an increase of $4.4 million or 6.0%.

There were no changes in non-cash operating working capital in the quarter as compared to $22.4 million in the comparable quarter in 2005.

Capital expenditures in the fourth quarter of 2006 totaled $27.0 million, compared to $17.2 million in the fourth quarter of 2005. Expenditures in the fourth quarter of 2006 included $11.4 million of payments and deposits for equipment and materials associated with the partial reline of the blast furnace scheduled for July 2007. There were no financing activities in the fourth quarter of 2006, while financing activities in the fourth quarter of 2005 included $8.1 million for the purchase and cancellation of shares pursuant to a normal course issuer bid.

Annual Corporate Financial Performance

The following table discloses the operating results of the Company for the years ended December 31, 2006, 2005 and 2004:

Consolidated Results of Operations

(in millions of dollars except per share amounts)	**2006**	2005	2004
Sales	**$ 1,939.7**	$ 1,917.6	$ 1,803.1
Cost of sales	**(1,488.2)**	(1,430.4)	(1,155.1)
Gross margin	**451.5**	487.2	648.0
Gross margin percentage	**23.3%**	25.4%	35.9%
Administrative and selling expense	**(70.4)**	(69.9)	(50.8)
Amortization	**(58.7)**	(56.1)	(52.2)
Other income	**2.1**	2.3	1.4
Income from operations	**324.5**	363.5	546.4
Financial (expense) income	**4.2**	0.7	(7.0)
Income before income taxes	**328.7**	364.2	539.4
Income taxes	**(106.9)**	(124.6)	(195.6)
Net income	**$ 221.8**	$ 239.6	$ 343.8
Net income per common share:			
Basic	**$ 6.10**	$ 6.04	$ 9.35
Diluted	**$ 6.06**	$ 6.00	$ 8.83
Weighted average number of common shares outstanding – millions:			
Basic	**36.36**	39.68	36.74
Diluted	**36.61**	39.94	38.96

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)			
Raw steel production	**2,614.6**	2,576.7	2,532.4
Steel shipments	**2,424.2**	2,282.6	2,198.2

Sales

Sales totaled $1.94 billion for the year ended December 31, 2006 on steel shipments of 2.424 million tons as compared to 2005 sales of $1.92 billion on steel shipments of 2.283 million tons. Pricing for sheet products was fairly strong for the first nine months of the year averaging $672 per ton before weakening in the fourth quarter to $624 per ton as a result of high service center inventory levels, increased imports and weaker economic conditions. Pricing for plate products remained fairly strong throughout 2006 averaging $1,074 per ton, but it was approximately 11% lower than the $1,207 per ton achieved in 2005. Overall, the average realized price for steel for 2006 declined 3.7% over 2005, primarily due to very strong pricing in the first half of 2005.

The mix between sheet and plate products shifted slightly with plate products accounting for 20.8% of total shipments in 2006 as compared to 19.8% in 2005. Sheet products include hot-rolled and pickled coils, cut-to-length coils, cold-rolled coils and first-stage blanks. Total shipments of sheet products were up 4.9%. Plate products include as-rolled and heat-treated plate, and welded wide flange beams. Shipments of plate products increased 11.5% over 2005 as the Company took advantage of the continuing strength in the plate market. Overall shipments increased 141,000 tons or 6.2% versus last year mainly due to higher production levels and relatively strong steel markets.

Non-steel sales were $43.3 million in 2006 as compared to $73.0 million in 2005. Non-steel sales include sales of various by-products generated in the manufacturing process. The decline in sales from 2005 relates primarily to a reduction of coke sales that totaled $13.6 million in 2006 as compared to $41.9 million in 2005.

During the year the Company remained focused on selling more products with characteristics different from base sheet and plate products in order to improve its competitive position and improve margins. During 2006 total sales of these differentiated products represented 40% of total steel shipments as compared to 38% in 2005. Differentiated product sales were 42% in the fourth quarter of 2006 indicating continued progress on this initiative.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2006 was $221.8 million compared to $239.6 million in 2005 and $343.8 million in 2004. The decrease in net income from 2005 was primarily due to lower average steel pricing for the year and lower coke shipments.

Earnings per share on a basic and diluted basis were $6.10 and $6.06 respectively in 2006 as compared to $6.04 and $6.00 in 2005 and $9.35 and $8.83 in 2004. In addition to changes in earnings over these periods, earnings per share reflect the reduction in shares outstanding due to share buybacks in 2005 and 2006. The weighted average diluted shares outstanding were 36.6 million in 2006 as compared to 39.9 million in 2005.

EBITDA

EBITDA in 2006 totaled $381.1 million compared to $417.3 million in 2005. The primary reasons for the decline were lower average steel prices in 2006 and lower coke shipments. In 2005, coke shipments totaled 93,100 tons, contributing approximately $26.4 million to EBITDA, while in 2006 coke shipments totaled 32,000 tons and contributed approximately $7.8 million to EBITDA.

The following table shows the reconciliation of EBITDA and net income in accordance with GAAP:

(in millions of dollars)	**2006**	2005	2004
Net income	**$ 221.8**	$ 239.6	$ 343.8
Amortization	**58.7**	56.1	52.2
Interest expense (income)	**(10.3)**	3.0	16.2
Premium on redemption of 11% Notes	**7.9**	-	-
Foreign exchange gain	**(1.8)**	(3.7)	(9.2)
Other income	**(2.1)**	(2.3)	(1.4)
Income taxes	**106.9**	124.6	195.6
EBITDA	**$ 381.1**	$ 417.3	$ 597.2

Cost of Sales

Cost of sales for the year 2006 totaled $1.49 billion, an increase of 4.0% over 2005 cost of sales of $1.43 billion. On a percentage of sales basis, cost of sales were 76.7% as compared to 74.6% in 2005. The increase in cost is mainly attributable to an increase in shipments of steel products, offset by lower shipments of coke. Excluding profit sharing, cost per ton for steel products averaged $553 for 2006, a slight decrease from the prior year. A reduction in operating income in 2006 resulted in profit sharing expense declining to $27.3 million ($11 per ton shipped) versus $31.5 million ($14 per ton shipped) for 2005. Cost of non-steel products was $35.6 million representing a decrease of $11.5 million as a result of lower sales of by-products in 2006.

Raw Materials

Raw materials represented 51% of costs for steel products in 2006 as compared to 47% in 2005 and include coal, ore, purchased coke, purchased scrap, purchased slabs, limestone and alloys.

During the year, the Company shipped products manufactured from purchased slabs totaling 165,000 tons and representing 6% of costs for steel products. In 2005, the Company shipped 5,000 tons of products manufactured from purchased slabs, representing less than 1% of costs for steel products. Accordingly, total raw material costs, inclusive of purchased slabs, represented 51% of costs for steel products in 2006 as compared to 47% in 2005. The cost per ton of purchased slabs is greater than the cost per ton of internally manufactured steel. The majority of Algoma's raw material purchases are priced in U.S. dollars and, as a result, costs benefited from the relative overall strengthening of the Canadian dollar. The average exchange rate of the Canadian dollar to the U.S. dollar was $1.1344 in 2006 compared to $1.2114 in 2005, an appreciation of 6.4%.

Algoma obtains its coal requirements mainly through three suppliers with approximately 66% of the coal held in a consignment inventory in Sault Ste. Marie. Coal consumption in 2006 totaled $150.9 million (1.46 million tons dry basis), an increase of $12.1 million from last year's total of $138.8 million (1.43 million tons dry basis). The increase in cost was primarily due to an increase in the cost of certain types of coal and a change in the mix of coal used. The increase in the consumption quantity was primarily due to production increases. The Company produced 1,009,300 tons of coke during 2006 as compared to 995,200 tons in 2005. Net of furnace coke sales, coal costs attributed to steel products totaled $146.3 million in 2006 as compared to $125.9 million in 2005.

Algoma has an exclusive supply agreement with Cleveland-Cliffs Inc. for the supply of iron ore with 10 years remaining in the 15-year agreement. (Refer to note 15 of the notes to the consolidated financial statements for more details). Prices under the supply agreement, denominated in U.S. dollars, declined approximately 3.25% in 2006. Consumption of iron ore in 2006 totaled $312 million (3.9 million tons), an increase of 2% from 2005 in which Algoma consumed $306 million (3.8 million tons) of iron ore. The impact of the decrease in unit costs was delayed by the consumption of opening inventories valued at 2005 pricing which was consumed by the end of the second quarter. Production of hot metal increased 4% or approximately 100,000 tons from last year.

Consumption of alloys totaled $104 million in 2006 as compared to $111 million in 2005. The 6% decrease was attributable to decreases in unit prices for certain alloys, offset by higher production levels.

Algoma consumed 158,500 tons of purchased scrap in 2006 at a total cost of $35 million. This compares to consumption of 174,500 tons of purchased scrap in 2005 at a total cost of $42 million. Algoma consumes approximately 640,000 tons of scrap annually with most of its scrap requirements generated from internal sources. The decrease in consumption of purchased scrap in 2006 was mainly due to a reduction in the overall consumption of scrap that resulted from improved liquid steel production resulting in the requirement for less scrap in the manufacturing process.

Consumption of purchased coke totaled 56,500 tons at a cost of $12 million as compared to 50,500 tons in 2005 at a cost of $17 million. The purchases were made to ensure adequate supply for internal consumption and to ensure that coke sales could be completed. Agreements were in place during 2006 for the sale of coke at favourable prices relative to the spot market.

Employment Costs

The average labour cost per hour, including all benefit costs but excluding profit sharing, increased by approximately 2% in 2006 primarily due to negotiated rate increases. At the end of 2006, there were approximately 3,200 employees working at Algoma, up from approximately 3,000 at the end of 2005.

The Company has a profit sharing plan in which the majority of the employees participate. Plan details can be found in note 12 of the notes to the consolidated financial statements. Profit sharing costs totaled $27.5 million in 2006 or $11 per ton of steel shipped as compared to $31.5 million, $14 per ton shipped, in 2005.

Other Supplies & Services

Included in other supplies and services are costs related to the purchase of services and materials used in both operating and maintenance activities. Expenditures in 2006 totaled $170 million, net of the recognition of the benefit of research and development tax credits of $4.6 million, as compared to $156 million in 2005, which was net of the recognition of research and development tax credits of $6.5 million. The increased spending level was primarily attributable to higher maintenance costs, due to the impact of factors such as increased volume, higher labour rates and inflationary price increases.

Energy

Energy costs include natural gas, purchased electricity, oxygen and other miscellaneous items.

The Company's total energy costs declined in 2006 by 23% mainly due to a decline in the cost of natural gas. The average unit cost of natural gas decreased 20% over 2005 and natural gas accounted for approximately 59% of the Company's total energy costs in 2006 compared to 69% in 2005. Algoma can maximize coke available for sale by adjusting the fuel mix in the blast furnace displacing coke consumption for natural gas. When the profits that can be realized on the sale of coke exceed the fuel cost penalty at the blast furnace, the Company will operate on a high natural gas fuel mix to maximize coke production available for sale. These variables are monitored and adjusted regularly throughout the year. Total natural gas costs were $106 million in 2006 compared to $161 million in 2005.

The cost of purchased electricity totaled $42 million in 2006 as compared to $41 million in 2005. Total consumption of purchased electricity was up 8.1% whereas unit costs decreased 3.7%. The increase in consumption of purchased electricity was primarily due to a reduction in internally-generated electricity that resulted from a generator failure during the year.

Praxair Canada Inc. supplies oxygen, argon and nitrogen under a contract that had 8.5 years remaining at the end of December 2006. Algoma's total cost of oxygen in 2006 was down 11% from 2005 at $20 million, due to rate reductions and lower facility costs.

Gross Margin

Gross margin on steel products was $443.8 million or $183 per ton as compared to $461.3 million or $202 per ton in 2005, representing a decrease of $17.5 million or $19 per ton as a result of factors discussed earlier related to sales and cost of sales. Gross margin on non-steel sales was $7.7 million in 2006 as compared to $25.8 million in 2005, representing a decrease of $18.1 million or 70.3% as a result of significantly lower coke sales in 2006 as compared to 2005.

Administrative and Selling Expenses

Administrative and selling expenses for the year ended December 31, 2006 totaled $70.4 million as compared to $69.9 million for 2005. Increases in stock-based compensation expense, information technology costs and the provision for bad debts were offset by lower donations expense. In 2005, a donation of $4 million was made to the local hospital by the Company.

Amortization

Amortization expense for 2006 totaled $58.7 million as compared to $56.1 million in 2005. The increase in expense is a reflection of higher capital spending levels in the past three years.

Interest Expense / Income

Interest expense in 2006 totaled $2.0 million compared to $18.5 million in 2005 due to the redemption of the Company's U.S. $125 million 11% Notes in January 2006. Financing costs in 2006 also included a $7.9 million premium paid on the redemption of the Notes in the first quarter of 2006.

The Company earned investment income from interest bearing instruments of $12.3 million as compared to $15.5 million in 2005. This decrease results from the Company having a lower level of cash and short-term investments in 2006, primarily due to the redemption of the 11% Notes and the purchase and cancellation of shares during the year.

Foreign Exchange Gain/Loss

The Company recognized a net foreign exchange gain in 2006 of $1.8 million as compared to a gain in 2005 of $3.7 million, which reflects the impact of changes in the Canadian dollar versus the U.S. dollar in both years on U.S. dollar denominated cash, accounts receivable, accounts payable and debt.

Provision for Income Taxes

For the year ended December 31, 2006, the provision for income taxes was $106.9 million representing an effective tax rate of 32.5% as compared to $124.6 million and a rate of 34.2% for 2005. The effective rate for 2006 is lower than the Company's statutory Canadian manufacturing and processing rate of 34.1% due to the tax benefits related to future Federal tax rate reductions and the pension plan prepayments of $85 million offset by an increase in the valuation allowance in respect of the accrued post-employment benefit obligation and a $3.5 million provision for reassessments of prior tax years. The current portion of the 2006 provision was $102.7 million versus $60.6 million for 2005.

	2006 $	2006 %	2005 $	2005 %
Tax Provision at the Statutory Manufacturing and Processing Rate	$ 112.1	34.1%	$ 124.2	34.1%
Impact of Future Federal Tax Rate Reductions	(11.6)	(3.6)	-	-
Provision for reassessment of prior tax years	3.5	1.1	-	-
Change in Future Tax Asset Valuation Allowance:				
Impact of Pension Expense	12.8	3.9	18.1	5.0
Impact of Pension Funding	(21.3)	(6.5)	(27.2)	(7.5)
Impact of Post-Employment Expenses	10.9	3.3	9.2	2.5
	2.4	0.7	0.1	0.0
Other	0.5	0.2	0.3	0.1
Actual Tax Provision	$ 106.9	32.5%	$ 124.6	34.2%

The long-term future tax liability of $130.2 million primarily reflects tax depreciation deducted in excess of book amortization resulting in a lower tax base of capital assets compared to their net book values. For further information, see note 14 of the notes to the consolidated financial statements.

Financial Resources and Liquidity

Summary of Cash Flows

For the years ended December 31 (in millions)	**2006**	2005
Operating activities:		
Cash flow from operations before changes in non-cash operating working capital	**$ 263.3**	$ 319.9
Changes in non-cash operating working capital	**(63.5)**	(6.8)
	199.8	313.1
Investing activities:		
Acquisition of property, plant and equipment	**(67.4)**	(56.5)
Decrease in short-term investments	**116.4**	4.8
Other	**1.5**	1.1
	50.5	(50.6)
Financing activities:		
Redemption of 11% Notes	**(153.3)**	-
Purchase and cancellation of shares	**(240.1)**	(38.0)
Dividends	**-**	(238.2)
Other	**(0.1)**	0.1
	(393.5)	(276.1)
Change in cash during the year	**$ (143.2)**	$ (13.6)

Cash Provided from Operating Activities

Cash provided from operations before changes in non-cash operating working capital in 2006 was $263.3 million compared to $319.9 million in 2005, primarily due to a pension prepayment of $85.0 million in 2006 versus $44.0 million in 2005. Exclusive of pension prepayments of $85.0 million in 2006 and $44.0 million in 2005, cash provided from operations before changes in non-cash operating working capital totals $348.3 million in 2006 as compared to $363.9 million in 2005, representing a decrease of $15.6 million or 4.3%. Changes in non-cash operating working capital resulted in a use of $63.5 million in 2006, compared to a use of $6.8 million in 2005. The increase in working capital in 2006 was mainly the result of an increase in inventories of $98.9 million, offset by a decrease in accounts receivable of $40.2 million. The increase in inventories was mainly attributable to an increase of $64.6 million in slab inventories and a $28.3 million increase in coal inventories. The increase in coal inventories reflects the fact that in 2005 all coal inventories were held on consignment from the Company's main coal supplier, while in 2006 only a portion of coal inventories are on consignment. Increases in slab inventories resulted primarily from lower than expected sales volumes in the fourth quarter. Management has adjusted planned production rates for 2007 in the context of abnormally high year end inventory levels and the scheduled blast furnace outage in July 2007 with the objective of reducing slab inventories during the year. The decrease in accounts receivable is a reflection of the lower sales in the fourth quarter of 2006 compared to 2005. Days sales outstanding were 48.1 days at the end of 2006 as compared to 46.8 days at the end of 2005. The increase in working capital in 2005 was mainly the result of an increase in inventories of $79.6 million due to higher quantities and unit costs of iron ore and higher unit costs for steel inventories. The increase in inventories was offset by an increase in accounts payable and accrued liabilities of $25.9 million and an increase in income and other taxes payable of $47.2 million. The increase in accounts payable and accrued liabilities was mainly due to the timing of payment of the accounts payable and an increase in the accrual for natural gas, offset by a reduction in the profit sharing accrual. The increase in income and other taxes payable was primarily due to an increase in the liability for income taxes.

Cash Used for Investment Activities

Cash provided by investment activities was $50.5 million in 2006 compared to the use of cash for investment activities of $50.6 million in 2005, primarily due to a decrease in short-term investments of $116.4 million in 2006. This large decrease in short-term investments in 2006 was primarily due to the significant use of cash for financing activities during the year, including the redemption of the 11% Notes and the purchase and cancellation of shares as discussed below. Acquisitions of property, plant and equipment totalled $67.4 million in 2006 as compared to the $56.5 million of acquisitions in 2005. Capital expenditures in 2006 included approximately $11.4 million of materials and equipment purchased in advance of the July 2007 blast furnace work. The Company realized $1.5 million from the sale of surplus assets in 2006, compared to $1.1 million in 2005.

At December 31, 2006, the Company had non-cancellable contractual commitments for future capital expenditures totalling $39.1 million, relating primarily to the purchase of manufacturing equipment and capital costs related to the cogeneration project. Capital expenditures in 2007 are expected to be $152 million.

Cash Provided by (Used for) Financing Activities

Financing activities in 2006 included the redemption of the 11% Notes for $153.3 million and the purchase and cancellation of 6.7 million shares totalling $240.1 million. Financing activities for the year ended December 31, 2005 included the payment of a special dividend of $6.00 per share that totalled $238.2 million and the purchase and cancellation of 1.6 million shares totalling $38.0 million. In the past two years, the number of shares outstanding has been reduced from 40.1 million at December 31, 2004 to 31.9 million at December 31, 2006, representing a decrease of 8.2 million shares or 20.5% of shares outstanding.

Outlook

Sales

While the Company is anticipating continued volume growth in 2007 as it continues to execute its growth plans, actual volumes attained in 2007 will be impacted by several factors including:

(i) actual impact that blast furnace downtime has on the production of steel and the ability of the Company to have appropriate levels and grades of inventory to supply customer demand during the downtime;
(ii) levels of inventories held by service centers throughout the year;
(iii) general economic conditions in Canada and the U.S. and the impact on demand of steel intensive products and industries such as automotive, heavy machinery, housing and non-residential construction;
(iv) levels of imports from countries such as China, Brazil, India and Russia; and
(v) the ability of the Company to secure necessary amounts of purchased slabs at appropriate prices.

Early indications are that the declines in steel prices that occurred in the fourth quarter of 2006 have abated, and with continued decline in service center inventories in the first quarter of 2007 market tightness should support increased pricing taking affect in mid to late Q1. The sustainability of these increases and the likelihood of further increases will be dictated by many of the industry and economic factors outlined above.

Manufacturing Costs

The Company has not completed negotiations for 2007 iron ore unit prices, but they are expected to be in the range of 5% to 5.5% higher than 2006 pricing. The impact of higher 2007 pricing will likely not take full affect until the end of the first quarter given inventory levels at the end of the year that are at 2006 price levels. Iron ore volume is expected to be down by approximately 8% due to the scheduled partial blast furnace rebuild in July.

The Company has concluded contractual arrangements respecting 100% of its coal requirements for 2007. Algoma estimates its 2007 contract coal costs per ton will be approximately 8% lower than 2006 coal contract costs. The decrease from 2006 is mitigated by several factors which include the effect of higher cost coal at previous contract pricing to be consumed in the first half of 2007 (the FIFO inventory effect) and the assumption that the current higher level of the Canadian dollar is maintained. Management cautions that actual coal costs are subject to many variables and could vary significantly from these estimates. These variables include the value of the Canadian dollar, shipment reliability against contracts, delivery costs, the mix of coal used, and coke-making production levels.

In 2006, approximately 66% of coal inventories were carried by Algoma's primary coal supplier until the point of consumption under a consignment arrangement. This arrangement will remain in place in 2007. The balance is purchased from other suppliers at the point of delivery of the coal to Algoma.

Rail and vessel freight costs are anticipated to increase marginally, influenced by base price increases and fuel prices.

No significant market price changes are anticipated for alloys. The cost of alloys used in production is influenced by product mix.

Employment levels are not expected to change significantly from 2006 levels. Wage rates in 2007 will ultimately be influenced by the result of union contract negotiations. The current labour contract expires on July 31, 2007.

The Company plans on increasing the level of sales from purchased slabs in 2007 as a result of expected increases in volumes and to cover steel needs during the blast furnace downtime. The amount of total slabs purchased in 2007 will also be impacted by inventories maintained through the year. The cost of a purchased slab is higher than the cost of manufactured steel and, accordingly, increased levels of purchased slabs will impact the average cost of raw materials in cost of goods sold.

Financial Position and Liquidity

The Company expects to pay its 2006 income tax liability of approximately $46 million in late February and distribute the remaining approximately $12 million of the 2006 profit sharing liability in March and April 2007. The Company is obligated to make monthly income tax instalments in 2007.

The prepayment of $85.0 million of pension funding obligations in December 2006 is expected to eliminate pension funding in 2007. This funding prepayment reduced 2006 income taxes. The absence of pension funding during 2007 should not result in a corresponding increase in the income tax provision rate due to the fact that the Company will no longer be recording a valuation allowance against the future tax benefit of pension costs recorded in 2007.

The Company currently has a normal course issuer bid in effect that permits the Company to purchase up to 3.2 million shares through October 2007. As of December 31, 2006 the Company has not purchased any shares. The Company makes no assurance that it will purchase shares during 2007. Any decisions related to share repurchases in 2007 will be made in the context of market conditions, stock price performance and alternative needs for the Company's capital.

The Company plans on shutting down its blast furnace in July 2007 for a period of 31 days to perform remedial work. Capital expenditures related to this outage are currently estimated at $41 million and related expenses are estimated at $12 million. The actual capital and expense outlays could vary significantly from these estimates due to the length of the outage, cost escalation, changes in scope, and other factors as noted at the end of the Outlook section.

Capital expenditures are projected to increase to approximately $152.0 million in 2007 from $67.4 million in 2006. The increase is due, in part, to the effect of the blast furnace outage scheduled for July 2007, the cogeneration facility and the Business Systems Renewal Project.

The Company holds a 10% revenue royalty on lands near Wawa, Ontario (the "Leadbetter Extension Property") on which Dianor Resources Inc. is conducting a diamond exploration program. Dianor has reported the occurrence of diamonds in the surface sampling and drilling that it has conducted to date. Algoma also owns lands abutting the Leadbetter Extension Property. Dianor is a public company listed on the TSX Venture Exchange (DOR).

This outlook contains forward-looking statements with respect to market conditions, prices, operating costs and shipments. Some factors, among others, that could affect market conditions, steel prices, costs and shipments include global and North American product demand, product mix, level of contract sales, foreign exchange rates, global production levels, plant operating performance, North American steel production levels and capacity utilization, natural gas prices and usage, raw materials availability and prices, changes in environmental, tax and other laws, and North American and global economic performance and political developments. Steel shipments and prices could be affected by import levels and government actions or lack of actions with regard to imports. These risks and uncertainties and others are described in more detail below.

Risks and Uncertainties

For a complete description of the Risks and Uncertainties, please refer to the Management's Discussion and Analysis section of the 2006 Annual Report, which can be accessed from SEDAR at www.sedar.com.

FOURTH QUARTER CONFERENCE CALL/WEBCAST PRESENTATION

The Company will conduct a conference call/webcast presentation on fourth quarter earnings on Thursday, February 8 at 10:00 a.m. ET. The call and presentation can be accessed through Algoma Steel's website at www.algoma.com under Investors, Webcasts and Presentations, Webcast of Q4-2006 Earnings Results. The conference call can also be accessed by phone at 416-620-8834. For more information on Algoma Steel, visit its website at www.algoma.com.

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For further information contact:
Daniel J. Ardila
Vice President Finance and Chief Financial Officer
Phone: (705) 945-2470
Email: dardila@algoma.com

Algoma Steel Inc.
Consolidated Statements of Income and Retained Earnings
Expressed in millions of Canadian dollars, except per share amounts

	Year ended December 31, 2006	Year ended December 31, 2005
Sales	**$ 1,939.7**	$ 1,917.6
Operating expenses		
Cost of sales	**1,488.2**	1,430.4
Administrative and selling	**70.4**	69.9
Amortization	**58.7**	56.1
	1,617.3	1,556.4
Other income	**2.1**	2.3
Income from operations	**324.5**	363.5
Financial expense (income)		
Interest on long-term debt	**0.2**	16.7
Foreign exchange gain	**(1.8)**	(3.7)
Premium on redemption of 11% Notes (note 7)	**7.9**	-
Other interest	**1.8**	1.8
Investment income	**(12.3)**	(15.5)
	(4.2)	(0.7)
Income before income taxes	**328.7**	364.2
Provision for income taxes (note 14)	**106.9**	124.6
Net income	**$ 221.8**	$ 239.6
Net income per common share (note 10)		
Basic	**$ 6.10**	$ 6.04
Diluted	**$ 6.06**	$ 6.00
Retained earnings		
Balance, beginning of period	**$ 346.0**	$ 367.1
Net income	**221.8**	239.6
Dividends	**-**	(238.2)
Purchase and cancellation of shares (note 10)	**(174.5)**	(22.5)
Balance, end of period	**$ 393.3**	$ 346.0

Algoma Steel Inc.
Consolidated Balance Sheets
Expressed in millions of Canadian dollars

	December 31, 2006	December 31, 2005
Assets		
Current		
Cash and cash equivalents	**$ 29.4**	$ 172.6
Short-term investments	**145.7**	262.2
Accounts receivable (note 16)	**216.0**	256.2
Inventories (note 3)	**420.4**	321.5
Prepaid expenses (note 15)	**19.1**	18.0
Future income taxes (note 14)	**1.7**	10.0
	832.3	1,040.5
Property, plant and equipment (note 4)	**648.8**	641.5
Accrued pension asset (note 8)	**22.6**	-
Other long-term assets	**1.7**	1.5
	$ 1,505.4	$ 1,683.5
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities (note 5)	**$ 148.5**	$ 153.6
Income and other taxes payable	**58.4**	57.0
Accrued pension liability and post-employment benefit obligation (notes 8 and 9)	**16.5**	25.9
11% Notes payable (note 7)	**-**	145.4
Future income tax liability (note 14)	**1.0**	4.7
	224.4	386.6
Accrued pension liability (note 8)	**-**	14.5
Accrued post-employment benefit obligation (note 9)	**258.0**	242.9
Other long-term liabilities (note 18)	**7.7**	9.2
Future income tax liability (note 14)	**130.2**	136.8
	395.9	403.4
Contingencies and commitments (note 15)		
Shareholders' equity		
Capital stock (notes 10 and 11)	**253.6**	306.6
Contributed surplus (notes 10 and 13)	**238.2**	240.9
Retained earnings	**393.3**	346.0
	885.1	893.5
	$ 1,505.4	$ 1,683.5

On behalf of the Board:

Benjamin Duster
Director

Patrick Lavelle
Director

Algoma Steel Inc.
Consolidated Statements of Cash Flows
Expressed in millions of Canadian dollars

	Year ended December 31, 2006	Year ended December 31, 2005
Operating activities		
Net Income	**$ 221.8**	$ 239.6
Payment of deferred compensation	**-**	(10.0)
Adjustments and items not affecting cash:		
Amortization	**58.7**	56.1
Future income tax expense (note 14)	**4.2**	64.0
Pension expense in excess of current funding	**37.4**	0.3
Prepayment of pension funding (note 8)	**(85.0)**	(44.0)
Post-employment benefit expense in excess of payments	**16.2**	12.9
Foreign exchange gain on long-term debt and accrued interest	**-**	(4.9)
Premium on redemption of 11% Notes (note 7)	**7.9**	-
Stock-based compensation (note 11)	**3.8**	3.6
Other	**(1.7)**	2.3
	263.3	319.9
Changes in non-cash operating working capital (note 17)	**(63.5)**	(6.8)
	199.8	313.1
Investing activities		
Acquisition of property, plant and equipment	**(67.4)**	(56.5)
Proceeds on sale of property, plant and equipment	**1.5**	1.1
Decrease (increase) in short-term investments	**116.4**	4.8
	50.5	(50.6)
Financing activities		
Dividends	**-**	(238.2)
Redemption of 11% Notes (note 7)	**(153.3)**	-
Purchase and cancellation of shares (note 10)	**(240.1)**	(38.0)
Other	**(0.1)**	0.1
	(393.5)	(276.1)
Cash and cash equivalents		
Change during period	**(143.2)**	(13.6)
Balance, beginning of period	**172.6**	186.2
Balance, end of period	**$ 29.4**	$ 172.6
Supplemental information		
Income taxes paid	**$ 92.3**	$ 2.7
Interest paid	**$ 1.0**	$ 17.3

NOTES TO 2006 CONSOLIDATED FINANCIAL STATEMENTS

The complete Notes to the 2006 Consolidated Financial Statements can be accessed on SEDAR at www.sedar.com on February 8, 2007.