ALGOMA STEEL INC.
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NEWS RELEASE
Wednesday, May 3, 2006

TSX Symbol: AGA

Algoma Steel Inc. Announces First Quarter Results

SAULT STE. MARIE, ONTARIO – Algoma Steel Inc. today released its first quarter results for 2006.

First Quarter Highlights:

- EBITDA of $80.5 million.
- Redemption of 11% Notes.
- Net income of $32.7 million or $0.84 per share.
    - $0.95 per share excluding redemption premium.
- Record shipments of 643,000 tons.
- Blast furnace outage deferred to 2007.

Algoma Steel Inc. reported net income of $32.7 million for the three months ended March 31, 2006 or $0.84 per common share on a diluted basis. This compares to net income of $55.0 million in the fourth quarter of 2005 and $89.1 million in the first quarter of 2005. EBITDA for the first quarter was $80.5 million compared to $77.6 million in the fourth quarter of 2005 and $157.8 million in the first quarter of 2005. The decrease to net income versus the fourth quarter of 2005 was due mainly to a higher provision for income taxes of $28.0 million versus $7.3 million in the fourth quarter of 2005. Income tax expense in the fourth quarter of 2005 was lower than in the first quarter of 2006 as a result of the recognition of the tax benefit of the $50.0 million additional pension funding made in the fourth quarter of 2005. In the first quarter of 2006, the tax expense is higher as a result of the absence of pension funding in the first quarter which resulted in an increase in the effective tax rate. Interest costs related to long-term debt were virtually eliminated in the first quarter, but this was more than offset by the one-time charge for the premium paid on the redemption of the 11% Notes of $7.9 million. The cash and securities balance declined to $302 million from $435 million at December 31, 2005 due mainly to a $153 million payment to redeem the 11% Notes and a $50 million payment related to the 2005 income tax liability.

Denis Turcotte, President and Chief Executive Officer, commented, “We are encouraged by the continued strong commercial and manufacturing performance which resulted in record shipments in the quarter. Our strong balance sheet, positive free cash flow, the resolution of the Paulson issue, and strengthening industry fundamentals position Algoma to take advantage of opportunities and continue driving shareholder value.”

Financial highlights for the first quarter 2006 compared to previous quarters are as follows:

	2006	2005			
	Q1	Q4	Q3	Q2	Q1
	($ millions except per share data)				
Sales	$499.6	$477.6	$446.4	$494.6	$499.0
EBITDA (1)	$80.5	$77.6	$62.8	$119.1	$157.8
Operating Income	$66.2	$63.5	$48.0	$106.2	$145.8
Income Before Taxes	$60.7	$62.3	$51.6	$105.2	$145.1
Net Income	$32.7	$55.0	$30.8	$64.7	$89.1
Net Income Per Share:					
- Basic	$0.85	$1.39	$0.77	$1.61	$2.22
- Diluted	$0.84	$1.38	$0.77	$1.60	$2.20
Basic weighted average number of common shares outstanding (millions)	38.61	39.53	39.97	40.13	40.12
Steel Revenue Per Ton Shipped	$737	$751	$695	$806	$859
EBITDA Per Ton Shipped (1)	$125	$133	$107	$212	$287

Steel Shipments (000's of net tons)

	2006	2005			
	Q1	Q4	Q3	Q2	Q1
Sheet	523	460	478	455	436
Plate	120	122	110	108	113
Total	643	582	588	563	549

(1) Earnings before interest, taxes, amortization, foreign exchange, premiums paid on redemption of 11% Notes, investment income and other income. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the 2005 Management Discussion and Analysis and the unaudited interim consolidated financial statements and notes contained in this report. This discussion of the Company's business may include forward-looking information with respect to the Company, including its business and operations and strategies, as well as financial performance and conditions. The use of forward-looking words, such as "may," "will," "expect" or similar variations, generally identify such statements. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the factors discussed in the 2005 Management Discussion and Analysis and the Company's 2005 Annual Information Form.

This document has been reviewed by the Audit Committee of Algoma's Board of Directors and contains information that is current as of May 2, 2006. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Additional information about Algoma is available in the Corporation's Annual Information Form which can be accessed from SEDAR at www.sedar.com.

Financial and Operating Results

Selected Financial Data for the Eight Quarters Ended March 31, 2006

(Canadian $ millions except per share data)	Sales	Income From Operations	Basic Income From Operations Per Share	Diluted Income From Operations Per Share	Net Income	Basic Net Income Per Share	Diluted Net Income Per Share
2006	$	$	$	$	$	$	$
1st Quarter	500	66	1.71	1.70	33	0.85	0.84
2005							
4th Quarter	478	64	1.61	1.60	55	1.39	1.38
3rd Quarter	446	48	1.20	1.19	31	0.77	0.77
2nd Quarter	495	106	2.65	2.63	65	1.61	1.60
1st Quarter	499	146	3.63	3.61	89	2.22	2.20
2004							
4th Quarter	490	180	4.48	4.46	122	3.05	3.03
3rd Quarter	536	188	4.92	4.65	122	3.17	3.00
2nd Quarter	440	131	3.46	3.25	78	2.05	1.93

The Company's profitability is highly correlated with the level of steel prices which is a major factor causing variation in quarterly operating results. Raw material and energy costs have also emerged as significant factors in recent years. Industry pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America. Since U.S. markets establish pricing levels, the exchange rate of the Canadian dollar to the U.S. dollar significantly impacts pricing realizations for Canadian producers.

Pricing levels increased in the fourth quarter of 2003 and throughout the first three quarters of 2004 due to stronger global markets, particularly China, and improved steel demand in North America. Excess steel inventories at the end of 2004 and weaker North American demand from several market sectors contributed to lower prices in 2005, reaching a low in August 2005 as excess inventories were depleted. Selling prices rose in the fourth quarter of 2005 due to a better balance between supply and demand and were relatively stable through the first quarter of 2006.

The cost of raw materials and natural gas escalated in 2004 and 2005 as input prices responded to the stronger demand. Iron ore prices, under a long-term supply agreement denominated in U.S. dollars, increased approximately 85% in 2005 and a further increase is expected in 2006. The impact of an increase in raw material pricing on earnings is delayed by the consumption of opening inventories acquired at the previous year's price. Coal costs also escalated in 2005 primarily because of spot market purchases due to temporary supply disruptions from the Company's main coal supplier.

An additional pension contribution in the fourth quarter of 2005 of $50.0 million resulted in a significant reduction to the effective tax rate in that quarter. The related absence of funding in the first quarter of 2006 resulted in a significant increase to the effective tax rate.

Net Income

Net income for the three months ended March 31, 2006 was $32.7 million as compared to $55.0 million for the fourth quarter of 2005 and $89.1 million for the comparable quarter of 2005. The decrease in net income from the previous quarter was mainly due to higher income taxes because of the favourable impact on income taxes in the fourth quarter of 2005 related to the $50.0 million pension contribution made in December and the related reduction in pension contributions in the first quarter of 2006. The absence of coke sales in the first quarter of 2006 and higher financial expense due mainly to the $7.9 million premium paid to redeem the 11% Notes in January 2006 also reduced profitability versus the previous quarter. This was partially offset by higher shipments and lower administrative and selling costs. Significantly lower steel prices account for most of the decline in net income versus the first quarter of 2005. Higher production costs and higher income taxes, offset in part by higher shipments and lower profit sharing expense, were contributing factors.

Sales

Revenue for the first quarter of 2006 was $499.6 million, an increase of $22.0 million versus the previous quarter and an increase of $0.6 million versus the comparable period in 2005. The increase from the previous quarter was due mainly to higher shipments. The increase over the first quarter of 2005 was due to significantly higher steel shipments, offset by lower steel prices. Steel prices averaged $737 per ton in the first quarter as compared to $751 per ton in the previous quarter and $859 per ton in the first quarter of 2005. Steel shipments totaled 642,900 tons for the three months ended March 31, 2006, 60,400 tons higher than the fourth quarter of 2005 and 93,600 tons higher than the first quarter of 2005.

EBITDA

EBITDA is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles. EBITDA is not intended to represent cash flow from operations, as defined by Canadian GAAP, and it should not be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by GAAP. The Company's EBITDA may also not be comparable to EBITDA used by other companies which may be calculated differently. 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.

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

($ Millions)	Three Months Ended Mar. 31, 2006	Three Months Ended Dec. 31, 2005	Three Months Ended Mar. 31, 2005
Net Income	$ 32.7	$ 55.0	$ 89.1
Amortization	14.3	14.1	12.6
Financial Expense (Income)	5.5	1.2	0.7
Other (Income) Expense	-	-	(0.6)
Income Taxes	28.0	7.3	56.0
EBITDA	$ 80.5	$ 77.6	$157.8

EBITDA for the first quarter was $80.5 million compared to $77.6 million for the previous quarter and $157.8 million for the first quarter of 2005. The improvement from the previous quarter was mainly due to higher shipments and lower selling and administrative expenses, offset in part by higher production costs and the absence of coke sales in the first quarter. The decline from the comparable quarter in 2005 was mainly attributable to lower steel selling prices, while higher production costs and higher financial expense were offset in part by higher steel shipments and lower employee profit sharing. There were no sales of coke in the first quarter of 2006 compared to sales of 27,200 tons in the fourth quarter of 2005 that generated approximately $7.9 million of EBITDA. Coke sales in the first quarter of 2005 totaled 13,500 tons and contributed $3.1 million to EBITDA.

Cost of sales before employees' profit sharing for the three months ended March 31, 2006 was $397.0 million versus $368.5 million for the fourth quarter of 2005 and $314.5 million for the first quarter of 2005. The increase over the fourth quarter of 2005 was mainly attributable to the higher shipments in the first quarter. The increase over the comparable period of 2005 was mainly attributable to higher steel shipments and higher unit costs.

Excluding employees' profit sharing expense, cost of sales per ton shipped for steel products was $577 for the three months ended March 31, 2006, virtually unchanged from the previous quarter and an increase of $48 per ton from the comparable period in 2005. Increased costs were offset by the effect of a lower proportion of higher-cost plate shipments on the average steel cost per ton in the first quarter. The benefit of lower natural gas prices in the first quarter as compared to the fourth quarter was partially offset by a research and development tax credit recognized in the fourth quarter and higher costs due in part to winter operations. The full benefit of lower natural gas prices in the first quarter was not fully realized due to inventory effects. The increase in cost of sales over the first quarter of 2005 was mainly attributable to higher costs for iron ore, partially offset by purchased coal cost penalties in 2005 due to supply disruptions with the Company's primary supplier.

The Company had inventory of 29,000 tons of purchased slabs at December 31, 2005 compared to 13,000 tons at March 31, 2006. Approximately 35,000 tons of finished goods produced from purchased slabs were sold in the first quarter and these additional sales generated approximately an additional $3 million of operating income. The Company expects to purchase an additional 150,000 tons over the balance of the year, although the quantity purchased will be highly dependent on market conditions in North America and the cost of purchased slabs.

A $4.6 million ($7 per ton) expense for employees' profit sharing was recorded in the first quarter versus a $5.9 million expense ($10 per ton) in the fourth quarter of 2005 and $12.5 million ($23 per ton) for the three months ended March 31, 2005.

Raw steel production for the three months ended March 31, 2006 totaled 637,000 tons versus 671,000 tons for the previous quarter and 638,000 tons for the first quarter of 2005.

Administrative and selling expenses totaled $17.5 million in the first quarter as compared to $25.6 million for the three months ended December 31, 2005 and $14.2 million for the comparable period in 2005. The main reasons for the higher level in the fourth quarter of 2005 were a $4.5 million accrual for management bonuses, the recognition of a $4.0 million donation to the local hospital, and an accrual for consulting costs related to research and development tax credits of $1.3 million. Expenditures for the first quarter of 2006 were higher than the first quarter of 2005 mainly due to higher consulting and legal fees associated with strategic initiatives and the Paulson matter and expenditures associated with the business systems renewal project.

Amortization

Amortization was $14.3 million for the three months ended March 31, 2006 as compared to $14.1 million for the fourth quarter of 2005 and $12.6 million for the comparable period in 2005.

Financial Expense (Income)

A net foreign exchange gain of $0.3 million was realized in the first quarter of 2006 as compared to a foreign exchange loss of $0.5 million in the fourth quarter of 2005 and a gain of $0.6 million in the first quarter of 2005.

Interest expense was $0.6 million for the three months ended March 31, 2006 as compared to $4.4 million for the three months ended December 31, 2005 and $4.7 million for the first quarter of 2005. The reduction in interest expense is due to the redemption of the 11% Notes on January 3, 2006. Investment income was $2.7 million for the first quarter of 2006 as compared to $3.7 million for the fourth quarter of 2005 and $3.4 million for the first quarter of 2005. The lower investment income was due to lower balances of cash and short-term investments. Financial expense in the first quarter of 2006 also included $7.9 million paid as a premium on the redemption of the 11% Notes.

Provision for Income Taxes

The first quarter provision for income taxes was $28.0 million (46.1%) compared to $7.3 million (11.7%) in the fourth quarter of 2005 and $56.0 million (38.6%) in the first quarter of 2005. The following table provides a reconciliation of the statutory tax amounts and rate to the actual provision for each quarter:

	Q1 2006		Q4 2005		Q1 2005	
	$	%	$	%	$	%
Tax Provision at the Statutory Manufacturing and Processing Rate	$ 20.7	34.1%	$ 21.3	34.1%	$ 49.5	34.1%
Change in Future Tax Valuation Allowance:						
Impact of Pension Expense	4.1	6.7	4.5	7.3	4.5	3.1
Impact of Pension Funding			(20.7)	(33.2)	(1.0)	(0.7)
Impact of Post-Employment Expenses	3.1	5.1	2.3	3.7	2.3	1.6
	7.2	11.8	(13.9)	(22.2)	5.8	4.0
Other	0.1	0.2	(0.1)	(0.2)	0.7	0.5
Actual Tax Provision	$ 28.0	46.1%	$ 7.3	11.7%	$ 56.0	38.6%

An additional pension contribution in the fourth quarter of 2005 of $50.0 million resulted in the reduction of valuation allowances against future income tax assets and a reduction in the tax expense in the fourth quarter. This prepayment of a portion of the 2006 funding obligation eliminated normal pension funding in the first quarter of 2006 and resulted in an increase to the income tax provision. The current portion of the income tax provision in the quarter, which will result in cash taxes payable, was $28.2 million versus $5.0 million in the fourth quarter of 2005 and $13.5 million for the first quarter of 2005. The effective tax rate for the first quarter of 2006 is higher than the Company's statutory rate of 34% due mainly to the impact of the timing of pension payments on future tax assets and valuation allowances with respect to pension and post-employment expenses.

Included in the current future tax asset at March 31, 2006 is a $5.7 million tax benefit relating to provincial minimum tax credits that is expected to be realized during the remainder of 2006. The long-term future tax liability of $136.3 million at March 31, 2006 primarily reflects cumulative tax depreciation deducted in excess of book amortization. For further information, see note 7 of the Notes to Interim Consolidated Financial Statements.

Financial Resources and Liquidity

Cash provided by operating activities was $34.8 million for the three months ended March 31, 2006 compared to $160.1 million for the three months ended March 31, 2005. The decline from the first quarter of 2005 was mainly due to lower earnings and an increase to non-cash operating working capital in the first quarter of 2006. Non-cash operating working capital increased by $38.1 million in the quarter as compared to a decrease of $4.5 million for the first quarter of 2005. The increase in the quarter was mainly attributable to increases in accounts receivable and prepaid expense and decreases in accounts payable and taxes payable, offset by a decrease in inventories.

Accounts receivable increased $13.4 million in the quarter mainly due to higher sales in March 2006 compared to December 2005. Prepaid expense increased $34.0 million in the quarter compared to an increase of $14.0 million in the first quarter of 2005 reflecting payments to the iron ore supplier in excess of the actual receipts of iron ore, in accordance with the iron ore contract. Inventories declined by $52.2 million in the quarter. Steel inventories were lower by 58,000 tons or approximately $32.3 million because of strong shipments in the quarter. Raw material inventories were lower by approximately $21.7 million primarily due to lower iron ore inventories. In the first quarter of 2005, inventories increased by $34.4 million mainly due to rising iron ore prices and finished steel production costs and an increase to the coke inventory level.

Accounts payable and accrued liabilities decreased $21.2 million in the quarter primarily due to a reduction in the profit sharing liability, reflecting the payment in 2005 and the timing of payments. Accounts payable and accrued liabilities increased $34.6 million in the first quarter of 2005 mainly due to an accrual for higher iron ore costs and the timing of payments. Income and other taxes payable decreased by $21.7 million in the quarter compared to an increase of $14.8 million in the first quarter of 2005. The decrease in the quarter primarily relates to a $50.0 million payment of the remainder of the 2005 current income tax liability. The increase in the first quarter of 2005 was mainly due to the accrual of current federal taxes after exhausting all non-capital loss carryforwards and payroll withholding taxes.

Investing activities for the three months ended March 31, 2006 included a decrease in short-term investments of $262.2 million and capital expenditures of $14.3 million, whereas investing activities in the first quarter of 2005 included an increase in short-term investments of $114.1 million and capital expenditures of $11.9 million. The decrease in short-term investments in the quarter primarily relates to the use of funds to redeem the 11% Notes and the payment of the outstanding 2005 income tax liability.

Financing activities for the three-month period ended March 31, 2006 included the redemption of the 11% Notes for $153.3 million. There were no significant financing activities in the first quarter of 2005.

Unused availability under the revolving credit facility at March 31, 2006 increased to $190.1 million compared to $178.2 million at December 31, 2005 due to a decrease in the outstanding letters of credit.

Redemption of 11% Notes

The Company's U.S. $125 million of outstanding 11% Notes, that were to mature on December 31, 2009, were redeemed on January 3, 2006 at a premium of 105.5% of the principal balance. The premium totaled $7.9 million and was charged to expense in the quarter. The total amount paid to redeem the Notes was $153.3 million.

Iron Ore Contract Dispute

Algoma's long-term iron ore supply agreement with Cleveland-Cliffs ("Cliffs") runs through 2016 (the "Ore Supply Agreement"). Pricing under the Ore Supply Agreement is based on a formula linked to global ore prices (the "pricing formula"). The Ore Supply Agreement also provides that, in certain years, either party may request a price negotiation ("Reopener Years") if prices under the Ore Supply Agreement differ from a specified benchmark price. It is Algoma's position that the Reopener Years are 2007, 2010 and 2013. Cliffs' position is that the Reopener Years are 2008, 2011 and 2014. Algoma and Cliffs have agreed to resolve this issue through binding arbitration which is anticipated to be completed by the end of 2006. The amount of the variance, if any, between the pricing formula and the benchmark price for a particular Reopener Year depends on future events and is therefore currently not determinable.

Resolution of the Paulson Situation

On March 7, 2006, Paulson & Co. Inc. agreed to withdraw its requisition for a special meeting of shareholders which had been scheduled for March 22. Algoma announced its intent to distribute $200 million to shareholders by mid-year and agreed to appoint two new mutually-agreeable directors to the Board selected through its normal governance process. Subsequently, the Company and Paulson agreed that only one new director would be added. The Company also announced it would continue a strategic process which would include assessing the potential for value creation through a sale, merger, acquisition or future distributions of excess capital if or when appropriate.

Algoma filed an application for an advance tax ruling in mid-March with respect to a corporate reorganization involving a proposed return of $200 million of paid-up capital to shareholders. The Canada Revenue Agency provided a negative response to the ruling request. The Company is currently reassessing the form of distribution to be utilized.

Steven Bowsher has resigned as a director of Algoma and Nicholas Tolerico has joined the Board. The Board of Directors will be recommending the addition of Nicholas Tolerico as a new Board member for approval by shareholders at the June 29, 2006 Annual and Special Meeting of Shareholders.

TRADE

The expiry review of the finding covering hot-rolled carbon and alloy steel sheet and strip is continuing. The finding relates to the dumping in Canada of product originating in or exported from Brazil, Bulgaria, the People's Republic of China, Chinese Taipei, India, the former Yugoslav Republic of Macedonia, South Africa, Ukraine and Serbia and Montenegro (formerly the Federal Republic of Yugoslavia), and the subsidizing of product originating in or exported from India.

On March 30, 2006, the President of the Canada Border Services Agency determined that the expiry of the finding is unlikely to result in the continuation or resumption of dumping of the goods from Bulgaria, the former Yugoslav Republic of Macedonia and Serbia and Montenegro (formerly the Federal Republic of Yugoslavia). A hearing will be held in mid-June before the Canadian International Trade Tribunal (CITT) to determine whether dumping from the remaining six-named countries and subsidizing of product from India will injure the Canadian industry. The decision by the CITT as to whether to continue or rescind the finding is expected by mid-August 2006.

OUTLOOK

Despite increased imports in the first quarter and an expectation that the increase will be maintained, market fundamentals remain strong and are expected to support second quarter shipments of over 600,000 tons and higher selling prices. Price increases have been announced for sheet and plate products commencing in May, consistent with general industry announcements. Algoma currently has contract sales approximating 40% of overall sales which are not subject to the price increases. The substantial strengthening of the Canadian dollar versus the U.S. dollar over the past month is a concern due to the potential effect on future earnings. Higher iron ore costs are expected due to the effect of the 2006 price increase, but this is expected to be offset by realizing the full benefit of lower prices for natural gas. Selling prices and costs are subject to a high degree of variability and certain factors which could affect actual results are noted in the last paragraph of this Outlook section. The Company currently expects to sell approximately 11,000 tons of coke in the second quarter.

The Company expects a price increase on iron ore in 2006 and is currently making payments to its ore supplier based on its estimate of an increase of 15%. The actual increase could vary significantly from this estimate depending on the outcome of global pricing.

In 2005, 100% of coal inventories were carried by Algoma's primary coal supplier until the point of consumption. In 2006, approximately 66% of Algoma's coal requirements will be carried by the primary supplier in this fashion. The balance will be purchased from other suppliers at the point of delivery of the coal to Algoma. As a result, coal inventory levels are expected to increase over 2005 commencing in April 2006, peaking at about $25 million at year-end due to the normal seasonal build. Coal inventories totaled $2.4 million at March 31 and are expected to increase to $13-$15 million by the end of the second quarter.

The Company has cancelled plans to shut down its blast furnace for a period of 15 days in the second half of 2006 to perform work related to extending the blast furnace reline to 2010 or beyond. The Company is currently assessing alternative plans for this work to be scheduled in 2007. A decision regarding the timing and duration of this outage will be determined by the end of the second quarter.

Certain statements made in this report are forward-looking statements that involve risks and uncertainties, including those risks and uncertainties identified in the Company's Management Discussion and Analysis for the year ended December 31, 2005 available on SEDAR at www.sedar.com. 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 steel production levels, plant operating performance, North American 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 forward-looking statements reflect the Company's best judgment based on current information, and although the Company bases these statements on circumstances that it believed to be reasonable when made, there can be no assurance that future events will not affect the accuracy of such forward-looking information. As such, the forward-looking statements are not guarantees of future performance, and actual results may vary materially from the results and expectations discussed herein. All statements, other than statements of historical facts included in this report, are forward-looking statements. All forward-looking statements speak only as of the date of this report. Algoma does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

FIRST QUARTER CONFERENCE CALL

The Company will conduct a conference call on first quarter earnings on Thursday, May 4 at 10:00 a.m. EDT. In order to listen to the call, phone 416-641-6652 or visit the Algoma Steel website at www.algoma.com and click on "Investors", then "Webcasts and Presentations", then "Webcast of Q1-2006 Quarterly Analyst Call". For more information on Algoma Steel, visit its website at www.algoma.com.

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This news release contains forward-looking information with respect to Algoma's operations and future financial results. Actual results may differ from expected results for a variety of reasons including the factors discussed in the Company's 2005 Management's Discussion and Analysis.

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Algoma Steel Inc.

Consolidated Statements of Income and Retained Earnings *(Unaudited)*

(millions of Canadian dollars - except per share amounts)

	Three Months Ended March 31 2006	Three Months Ended March 31 2005
Sales	**$ 499.6**	$ 499.0
Operating expenses		
Cost of sales (before the following item)	**397.0**	314.5
Employees' profit sharing	**4.6**	12.5
	401.6	327.0
Administrative and selling	**17.5**	14.2
Amortization	**14.3**	12.6
	433.4	353.8
Other income	**-**	0.6
Income from operations	**66.2**	145.8
Financial expense (income)		
Interest on long-term liabilities	**0.1**	4.2
Foreign exchange gain	**(0.3)**	(0.6)
Premium on redemption of 11% Notes (note 3)	**7.9**	-
Other interest	**0.5**	0.5
Investment income	**(2.7)**	(3.4)
	5.5	0.7
Income before income taxes	**60.7**	145.1
Income taxes (note 7)		
Current	**28.2**	13.5
Future	**(0.2)**	42.5
	28.0	56.0
Net income	**$ 32.7**	$ 89.1
Net income per common share (note 5)		
Basic	**$ 0.85**	$ 2.22
Diluted	**$ 0.84**	$ 2.20
Weighted average number of common shares outstanding - millions (note 5)		
Basic	**38.61**	40.12
Diluted	**38.84**	40.41
Retained earnings		
Balance, beginning of period	**$ 346.0**	$ 367.1
Net income	**32.7**	89.1
Balance, end of period	**$ 378.7**	$ 456.2

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)		
Raw steel production	**637**	638
Steel shipments	**643**	549

See accompanying notes.

Algoma Steel Inc.

Consolidated Balance Sheets *(Unaudited)*

(millions of Canadian dollars)

	March 31 2006	December 31 2005
Current assets		
Cash and cash equivalents	**$ 302.1**	$ 172.6
Short-term investments	**-**	262.2
Accounts receivable	**269.6**	256.2
Inventories	**269.3**	321.5
Prepaid expenses	**52.0**	18.0
Future income taxes (note 7)	**6.8**	5.3
	899.8	1,035.8
Capital assets, net	**641.4**	641.5
Deferred charges	**1.2**	1.5
Total assets	**$ 1,542.4**	$ 1,678.8
Current liabilities		
Accounts payable and accrued liabilities	**$ 132.4**	$ 153.6
Income and other taxes payable	**35.3**	57.0
Accrued pension liability and post-employment benefit obligation	**35.4**	25.9
11% Notes payable (note 3)	**-**	145.4
	203.1	381.9
Accrued pension liability and post-employment benefit obligation	**265.6**	257.4
Other long-term liabilities	**8.9**	9.2
Future income tax liability (note 7)	**136.3**	136.8
	410.8	403.4
Shareholders' equity		
Capital stock (notes 4 & 6)	**306.6**	306.6
Contributed surplus (note 7)	**243.2**	240.9
Retained earnings	**378.7**	346.0
	928.5	893.5
Total liabilities and shareholders' equity	**$ 1,542.4**	$ 1,678.8

See accompanying notes.

Algoma Steel Inc.

Consolidated Statements of Cash Flows *(Unaudited)*

(millions of Canadian dollars)

	Three Months Ended March 31 2006	Three Months Ended March 31 2005
Cash provided by (used in)		
Operating activities		
Net income	**$ 32.7**	$ 89.1
Adjustments and items not affecting cash:		
Amortization	**14.3**	12.6
Pension expense in excess of payments (note 8)	**13.4**	5.6
Post-employment expense in excess of payments (note 8)	**4.3**	3.6
Future income tax expense	**(0.2)**	42.5
Exchange gain on long-term debt and accrued interest	**-**	1.0
Gain on disposal of capital assets	**(0.1)**	(0.4)
Premium on redemption of 11% Notes	**7.9**	-
Stock-based compensation	**0.4**	1.4
Other	**0.2**	0.2
	72.9	155.6
Changes in non-cash operating working capital	**(38.1)**	4.5
	34.8	160.1
Investing activities		
Decrease (increase) in short-term investments	**262.2**	(114.1)
Capital asset expenditures	**(14.3)**	(11.9)
Proceeds on sale of capital assets	**0.2**	0.8
	248.1	(125.2)
Financing activities		
Redemption of 11% Notes	**(153.3)**	-
Decrease in other long-term liabilities	**-**	(0.2)
Change in capital lease	**(0.1)**	-
	(153.4)	(0.2)
Cash and cash equivalents		
Change during the period	**129.5**	34.7
Balance, beginning of period	**172.6**	186.2
Balance, end of period	**$ 302.1**	$ 220.9

Changes in non-cash operating working capital		
Accounts receivable	**$ (13.4)**	$ 3.5
Inventories	**52.2**	(34.4)
Prepaid expenses	**(34.0)**	(14.0)
Accounts payable and accrued liabilities	**(21.2)**	34.6
Income and other taxes payable	**(21.7)**	14.8
	$ (38.1)	$ 4.5

See accompanying notes.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements *(Unaudited)*

(millions of Canadian dollars)

1. Basis of presentation and accounting policies

These interim consolidated financial statements have been prepared using the same accounting principles and methods as were used for the consolidated financial statements for the year ended December 31, 2005. Management is required to make estimates and assumptions that affect the amounts reported in the interim financial statements. Management believes that the estimates are reasonable; however, actual results could differ from these estimates. The disclosures in these interim consolidated financial statements do not meet all disclosure requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements and they should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2005 and the notes thereto.

2. Banking facilities

The Corporation's Loan and Security Agreement ("Agreement") with its bank provides the Corporation with a revolving credit facility ("Revolving Facility") with financing equal to the lesser of $200 million and a borrowing base determined by the levels of the Corporation's accounts receivable and inventories less certain reserves. At March 31, 2006, there was $190.1 million of unused availability under the Revolving Facility after taking into account $9.9 million of outstanding letters of credit. The Corporation is required to maintain a minimum availability of $25 million. The Revolving Facility matures on September 3, 2007 and is collateralized by a first charge on short-term investments, accounts receivable and inventories. Borrowings can be made in either Canadian or United States (U.S.) funds at rates fluctuating between 0.75% and 1.5% above either the Canadian prime bank rate or the U.S. base rate or, at the Corporation's option, at rates fluctuating between 1.75% and 2.5% over bankers' acceptance rate or London interbank offering rate.

3. 11% Notes payable

The 11% Notes were redeemed on January 3, 2006 at a premium of 105.5% of the principal balance. The premium totaled $7.9 million and was charged to expense in January 2006.

4. Share capital

Authorized - Unlimited common shares

The following table summarizes the share capital transactions since December 31, 2005:

	Common Shares Issued and Outstanding	
	# Shares	Stated Capital
Balance at December 31, 2005	38,573,073	$ 306.6
Shares issued on exercise of restricted share units	35,116	-
Balance at March 31, 2006	38,608,189	$ 306.6

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements *(Unaudited)*

(millions of Canadian dollars)

5. Earnings per share

Diluted net income per common share assumes the exercising of any share options and restricted share units (note 6).

	Three months ended March 31 2006	Three months ended March 31 2005
Basic weighted average number of common shares outstanding	**38.61**	40.12
Common shares issued on the assumed exercising of employee stock options and restricted share units	**0.23**	0.29
Diluted weighted average number of common shares outstanding	**38.84**	40.41

6. Stock-based compensation plans

During the quarter ended March 31, 2006, no shares were awarded under the share award plan and there were no options or restricted share units granted.

During the quarter ended March 31, 2005, 8,469 shares were awarded under the share award plan with an average fair market value of $31.88 per share. There were 281,480 options granted with a weighted average exercise price of $28.98 per share, and an estimated weighted average fair value of $15.69 per option determined using the Black-Scholes model. The Corporation also granted 55,940 restricted share units with a grant-date fair value of $28.98 per unit.

The compensation expense recognized for all awards granted under these plans was $0.4 million for the three-month period ended March 31, 2006 (2005 - $1.4 million).

7. Income taxes

The Corporation's effective income tax rates for the first quarter of both 2006 and 2005 are higher than its statutory manufacturing and processing rate of 34% primarily due to a valuation allowance that has been taken against future tax assets arising in the period.

Any future tax benefit recognized in respect of unrecorded tax assets that arose prior to fresh start accounting is recorded as an increase to contributed surplus. The increase to contributed surplus was $1.8 million for the three months ended March 31, 2006 (2005 - $3.0 million).

The Corporation’s estimate of non-capital losses available subsequent to the 2002 financial reorganization has not been reviewed by the Canada Revenue Agency and may be subject to change.

8. Pension and other post-employment benefits

Pension expense for the three-month period ended March 31, 2006 was $13.6 million (2005 - $13.2 million).

Post-employment benefits expense for the three-month period ended March 31, 2006 was $7.8 million (2005 - $6.8 million).