ALGOMA STEEL INC.
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NEWS RELEASE
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Algoma Steel Inc. Announces Third Quarter Results

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

Third Quarter Highlights:

- EBITDA of $112.3 million.
- Net income of $59.5 million or $1.61 per share.
- 5,479,452 shares purchased under substantial issuer bid for $200.0 million.
- Cash and investments total $209.3 million.
- Shipments of 622,000 tons.
- Announces intention to proceed with new Normal Course Issuer Bid.

Algoma Steel Inc. reported net income of $59.5 million for the three months ended September 30, 2006 or $1.61 per common share on a diluted basis. This compares to net income of $79.2 million in the second quarter of 2006 and $30.8 million in the third quarter of 2005. EBITDA for the third quarter was $112.3 million compared to $124.1 million in the second quarter of 2006 and $62.8 million in the third quarter of 2005. The decrease in net income compared to the previous quarter was due mainly to higher costs and a higher provision for income taxes, partially offset by higher prices. The higher costs in the third quarter were mainly due to higher coal costs of $5.0 million and the effect of several adjustments, recorded in the second quarter, totaling approximately $11.4 million. The second quarter adjustments were related to research and development tax credits and a municipal tax refund totaling $8.4 million and a $3.0 million retroactive decrease to the price of iron ore in 2006. The reduction from the cash balance of $341.4 million at June 30, 2006 was due to the substantial issuer bid of $200.0 million. The Company generated cash from operations of $82.4 million versus $90.1 million for the second quarter and ended the period with a cash balance of $209.3 million as of September 30, 2006.

Denis Turcotte, President and Chief Executive Officer, commented, “Results were in line with our expectations as demand and pricing remained solid through the quarter. Early indicators are that demand from service centers and the auto sector will continue to be soft through the fourth quarter as these customers try to work down their inventories. This will result in pressure on pricing and, as required, a corresponding reduction in our sales volumes as we maintain our focus on profitability. Although we are concerned that the current market weakness may extend into the new year, we continue to be optimistic about the mid and longer term dynamics of the industry.”

In addition, the Company today announced that it intends to file with the Toronto Stock Exchange a Notice of Intention to make a Normal Course Issuer Bid, pursuant to which Algoma may purchase for cancellation up to 3,165,414 of its common shares, representing approximately 10% of its public float of common shares. As of November 1, 2006, there were 31,896,358 Algoma common shares issued and outstanding, and a public float of 31,654,142 Algoma common shares.

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

	2006			2005	
	Q3	Q2	Q1	Q4	Q3
	($ millions except per share data)				
Sales	$516.9	$504.8	$499.6	$477.6	$446.4
EBITDA (1)	$112.3	$124.1	$80.5	$77.6	$62.8
Operating Income	$97.2	$110.7	$66.2	$63.5	$48.0
Income Before Taxes	$100.2	$110.4	$60.7	$62.3	$51.6
Net Income	$59.5	$79.2	$32.7	$55.0	$30.8
Net Income Per Share:					
- Basic	$1.62	$2.07	$0.85	$1.39	$0.77
- Diluted	$1.61	$2.06	$0.84	$1.38	$0.77
Basic weighted average number of common shares outstanding (millions)	36.77	38.23	38.61	39.53	39.97
Steel Revenue Per Ton Shipped	$774	$753	$737	$751	$695
EBITDA Per Ton Shipped (1)	$181	$199	$125	$133	$107

Steel Shipments (000's of net tons)

	2006			2005	
	Q3	Q2	Q1	Q4	Q3
Sheet	486	491	523	460	478
Plate	136	134	120	122	110
Total	622	625	643	582	588

(1) Earnings before interest, taxes, amortization, foreign exchange, premium 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 October 31, 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 September 30, 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	$	$	$	$	$	$	$
3rd Quarter	517	97	2.64	2.62	60	1.62	1.61
2nd Quarter	505	111	2.90	2.88	79	2.07	2.06
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

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 2004 due to stronger global markets, particularly China, and improved steel demand in North America. Pricing in 2005 was influenced by excess steel inventories at the end of 2004 and weaker North American demand from several market sectors, reaching a low in September 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 rose further in the second quarter of 2006. Overall, average selling prices increased in the third quarter of 2006, but they started to decline near the end of the quarter due to excess steel service center inventories.

The cost of raw materials and natural gas escalated in 2004 and 2005 as input prices responded to the stronger demand. Natural gas costs have declined in 2006 from the peaks reached in 2005. Iron ore prices, under a long-term supply agreement denominated in U.S. dollars, increased approximately 85% in 2005 but declined 3.25% in 2006. Coal costs also escalated in 2005 primarily because of spot market purchases due to temporary supply disruptions from the Company's main coal supplier. Coal costs have also increased in 2006 due to the renegotiation in the first quarter of a new three-year supply agreement at less favorable prices. The impact of an increase or decrease in raw material pricing on earnings is delayed by the consumption of opening inventories acquired at the previous year's price.

Income from operations and net income, on a per share basis, reflect the impact of share buybacks. In 2005, during August through October, the Company purchased 1,590,100 shares under a normal course issuer bid. During 2006, the Company has purchased 1,242,400 shares under a normal course issuer bid during May and June and purchased 5,479,452 shares under a substantial issuer bid in September 2006.

Net Income

Net income for the three months ended September 30, 2006 was $59.5 million compared to $79.2 million for the second quarter of 2006 and $30.8 million for the comparable quarter of 2005. The decrease in net income from the previous quarter was mainly due to higher costs and a higher effective tax rate, partially offset by higher average selling prices. The increase in cost of sales over the second quarter was primarily due to the recognition in the second quarter of a total of $8.4 million related to the benefit of research and development tax credits and municipal tax refunds, a $3.0 million retroactive decrease to the price of iron ore, and increased coal costs of approximately $5.0 million. The increase in earnings versus the third quarter of 2005 was primarily due to higher selling prices, higher shipments, decreased cost of iron ore and decreased natural gas costs, partially offset by an increase in coal costs.

Sales

Revenue for the third quarter of 2006 was $516.9 million, $12.1 million higher than the previous quarter and $70.5 million higher than the comparable period in 2005. The increase from the previous quarter was the result of higher average selling prices, offset by a slight decrease in volume. The increase over the third quarter of 2005 was the result of higher pricing, increased shipments, and a higher proportion of plate shipments that increased to 21.9% of shipments from 18.7% in the comparable quarter in 2005. Steel prices averaged $774 per ton in the third quarter as compared to $753 per ton in the previous quarter and $695 per ton in the third quarter of 2005. Steel shipments totaled 622,000 tons for the three months ended September 30, 2006, 3,000 tons lower than the second quarter of 2006 but 34,000 tons higher than the third 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 Sept. 30, 2006	Nine Months Ended Sept. 30, 2006	Three Months Ended Sept. 30, 2005	Nine Months Ended Sept. 30, 2005
Net Income	$ 59.5	$171.4	$ 30.8	$184.6
Amortization	14.6	43.4	16.4	42.0
Financial Expense (Income)	(3.0)	2.8	(3.6)	(1.9)
Other Expense (Income)	0.5	(0.6)	(1.6)	(2.3)
Income Taxes	40.7	99.9	20.8	117.3
EBITDA	$112.3	$316.9	$62.8	$339.7

EBITDA for the third quarter was $112.3 million compared to $124.1 million for the previous quarter and $62.8 million for the third quarter of 2005. The decline from the previous quarter was mainly attributable to higher costs, primarily coal, alloys and labour, and the impact of earnings adjustments in the second quarter of 2006 totalling $11.4 million, partially offset by higher pricing. The improvement from the comparable quarter in 2005 was mainly due to higher selling prices, the effect of higher shipments, and a decline in manufacturing costs resulting primarily from lower natural gas costs and iron ore, offset by higher coal costs. Coke sales in the third quarter of 2006 amounted to 10,500 tons, contributing $2.6 million to EBITDA versus coke sales of 10,900 tons in the second quarter that contributed $3.0 million to EBITDA. Coke sales in the third quarter of 2005 totaled 25,500 tons and contributed $7.1 million to EBITDA.

Cost of sales before employees' profit sharing for the three months ended September 30, 2006 was $378.4 million versus $351.2 million for the second quarter of 2006 and $363.9 million for the third quarter of 2005. The increase over the second quarter of 2006 was mainly attributable to the recognition in the second quarter of the benefit of research and development tax credits and a municipal tax refund as noted above, and the retroactive settlement of 2006 iron ore pricing which resulted in an adjustment to second quarter cost of sales of approximately $3.0 million that related to iron ore consumption in the first quarter of 2006. Higher costs for coal of approximately $5.0 million also contributed to the increase in cost of sales over the second quarter. The increase over the comparable period of 2005 was primarily due to higher shipments and higher coal costs, offset by lower costs for natural gas and iron ore.

Excluding employees' profit sharing expense, cost of sales per ton shipped for steel products was $556 per ton for the three months ended September 30, 2006 versus $512 per ton for the previous quarter and $567 per ton for the comparable period in 2005. The variances from the previous quarter and the comparable period in 2005 were due mainly to the factors noted above.

The Company had inventory of 66,000 tons of purchased slabs at September 30, 2006 compared to 49,000 tons at June 30, 2006 and 5,000 tons at September 30, 2005. Approximately 70,000 tons of finished goods produced from purchased slabs were sold in the third quarter and these additional sales generated approximately an additional $4.4 million of operating income. This compares to approximately 40,000 tons of finished goods produced from purchased slabs in the second quarter generating approximately $3.0 million of operating income. On a year-to-date basis, approximately 145,000 tons of finished goods produced from purchased slabs have been sold generating approximately $10.4 million of operating income.

An $8.4 million ($14 per ton) expense for employees' profit sharing was recorded in the third quarter versus a $10.7 million expense ($17 per ton) for the second quarter and $4.4 million ($7 per ton) for the three months ended September 30, 2005.

Raw steel production for the three months ended September 30, 2006 totaled 662,000 tons versus 665,000 tons for the previous quarter and 628,000 tons for the third quarter of 2005. For the nine months ended September 30, 2006, raw steel production was 1,964,000 tons versus 1,906,000 tons for the same period in 2005.

Administrative and selling expenses totaled $17.8 million in the third quarter as compared to $18.8 million for the three months ended June 30, 2006 and $15.3 million for the comparable period in 2005. For the nine months ended September 30, 2006, administrative and selling expenses totaled $54.1 million, $9.8 million higher than the comparable period in 2005. Expenditures were higher than the comparable periods in 2005 mainly due to higher consulting and legal fees related to strategic activities, higher stock compensation expense and higher expenditures associated with the process re-engineering aspects of the Company's business systems renewal project.

Amortization

Amortization was $14.6 million for the three months ended September 30, 2006 as compared to $14.5 million for the three months ended June 30, 2006 and $16.4 million for the comparable period in 2005.

Financial Expense (Income)

A net foreign exchange loss of $0.3 million was realized in the third quarter of 2006 as compared to a net foreign exchange loss of $3.2 million in the second quarter of 2006 and a gain of $4.0 million in the third quarter of 2005. For the nine months ended September 30, 2006, a foreign exchange loss of $3.2 million was realized versus a $4.2 million gain for the comparable period in 2005. The exchange loss in 2006 was related to U.S. dollar exposure on receivables and payables. In 2005, the exchange gain also related to the U.S. dollar exposure on the 11% Notes payable.

Interest expense was $0.4 million for the three months ended September 30, 2006 as compared to $0.5 million for the three months ended June 30, 2006 and $4.7 million for the third quarter of 2005. For the nine months ended September 30, 2006, interest expense was $1.5 million compared to $14.1 million for the comparable period in 2005. The reduction in interest expense in 2006 is due to the redemption of the 11% Notes on January 3, 2006. Investment income was $3.7 million for the third quarter of 2006 as compared to $3.4 million for the second quarter of 2006 and $4.3 million for the third quarter of 2005. For the nine months ended September 30, 2006, investment income was $9.8 million versus $11.8 million for the nine months ended September 30, 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. Financial expense for the nine months ended September 30, 2006 also included $7.9 million paid as a premium on the redemption of the 11% Notes.

Provision for Income Taxes

The third quarter provision for income taxes was $40.7 million (40.6%) compared to $31.2 million (28.3%) in the second quarter of 2006 and $20.8 million (40.3%) in the third quarter of 2005. The second quarter provision included a future tax expense reduction of $11.6 million in respect of corporate tax rate reductions included in the 2006 Federal Budget. Without this adjustment, the effective tax rate for the second quarter would have been 38.8%. On a year-to-date basis, the provision for income taxes was $99.9 million (36.8%) as compared with $117.3 million (38.9%) in 2005. The following table provides a reconciliation of the statutory tax amounts and rate to the actual provision for each quarter:

	Q3 2006 $	Q3 2006 %	Q2 2006 $	Q2 2006 %	Q3 2005 $	Q3 2005 %
Tax Provision at the Statutory Manufacturing and Processing Rate	$ 34.2	34.1%	$ 37.6	34.1%	$ 17.5	34.1%
Impact of Future Federal Tax Rate Reductions	-	-	(11.6)	(10.5)	-	-
Change in Future Tax Valuation Allowance:						
Impact of Pension Expense	3.5	3.5	2.4	2.2	4.5	8.6
Impact of Pension Funding	-	-	-	-	(3.2)	(6.2)
Impact of Post-Employment Expenses	2.6	2.6	1.9	1.7	2.3	4.4
	6.1	6.1	4.3	3.9	3.6	6.8
Other	0.4	0.4	0.9	0.8	(0.3)	(0.6)
Actual Tax Provision	$ 40.7	40.6%	$ 31.2	28.3%	$ 20.8	40.3%

An additional $50.0 million pension contribution in the fourth quarter of 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 has 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 $37.5 million versus $40.5 million in the second quarter of 2006 and $14.6 million for the third quarter of 2005. The effective tax rate for the third quarter of 2006 is higher than the Company's statutory rate of 34% due mainly to a valuation allowance being taken against future tax assets arising in the period. The Company will be reviewing the requirement for valuation allowances against future income tax assets in the fourth quarter. To the extent that it is determined that these allowances should be reduced, the fourth quarter income tax provision would be reduced accordingly.

Included in the current future tax asset at September 30, 2006 is a $2.3 million tax benefit relating to provincial minimum tax credits that is expected to be realized in the fourth quarter of 2006. The long-term future income tax liability of $123.3 million at September 30, 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 $82.4 million for the three months ended September 30, 2006 compared to $35.4 million for the three months ended September 30, 2005. The increase from the third quarter of 2005 was mainly due to higher income and lower pension funding in the third quarter of 2006 and the payment of $10 million of deferred compensation in the third quarter of 2005. Non-cash operating working capital increased by $14.2 million in the quarter as compared to an increase of $7.8 million for the third quarter of 2005. The increase in the quarter was mainly attributable to an increase in inventories and a decrease in accounts payable and accrued liabilities, offset by a decrease in prepaid expenses and an increase in income and other taxes payable.

Inventories increased $47.0 million in the quarter compared to an increase of $24.6 million in the third quarter of 2005. The increase in the quarter was mainly due to higher quantities of internally-produced slabs, purchased slabs, coal, iron ore and scrap. Accounts payable and accrued liabilities decreased by $9.7 million in the quarter compared to an increase of $5.3 million for the comparable period of 2005. The decrease in the quarter was primarily due to a decrease in payables related to timing of receipt of raw materials and payment terms, offset by an increase in the profit sharing accrual. The increase in 2005 was mainly due to the timing of payments.

Prepaid expenses decreased by $10.5 million in the quarter compared to a decrease of $12.1 million in the third quarter of 2005. The decrease in 2006 was mainly due to the reduction of a prepayment for purchased slabs and a reduction in the amount of iron ore payments in excess of actual receipts of iron ore. The decrease in 2005 was mainly due to a lower prepayment for iron ore. Income and other taxes payable increased by $32.3 million in the quarter compared to an increase of $12.4 million in the third quarter of 2005. The increase in both years related primarily to an increased accrual for current income taxes.

For the nine months ended September 30, 2006, cash provided by operating activities was $207.3 million compared to $306.5 million for the nine months ended September 30, 2005. Non-cash operating working capital increased by $64.6 million in the period compared to a decrease of $15.6 million for the same period in 2005. The increase in 2006 was mainly the result of an increase in accounts receivable of $31.5 million, an increase in inventories of $43.6 million and an increase in prepaid expenses of $14.8 million, offset by an increase of $24.1 million in income and other taxes payable. The increase in accounts receivable was due to higher sales in September 2006 compared to December 2005, and an amount due from the Company's iron ore supplier of approximately $13.6 million related to the retroactive ore price decrease. The increase in inventories was primarily due to higher coal and purchased slab inventories. The increase in prepaid expenses reflects iron ore payments exceeding actual receipts of iron ore and higher prepaid amounts related to insurance and municipal taxes. The increase in income and other taxes payable relates to an increased accrual for current income taxes due to the availability of loss carryforwards at December 31, 2005 to offset some of the current income taxes payable.

The decrease in non-cash operating working capital in 2005 was mainly the result of an increase in accounts payable and accrued liabilities of $68.5 million and an increase in income and other taxes payable of $47.8 million, offset by an increase in inventories of $82.5 million. The increase in accounts payable and accrued liabilities was attributable to the timing of accounts payable, an accrual for higher iron ore costs and natural gas purchases. The increase in income and other taxes payable was due to an increased accrual for current income taxes. The increase in inventories was mainly attributable to higher quantities of iron ore and scrap inventories as well as higher unit costs for the iron ore and for steel inventories due to higher input costs.

Investing activities for the three months ended September 30, 2006 included an increase in short-term investments of $149.3 million and capital expenditures of $14.8 million, whereas investing activities in the third quarter of 2005 included a decrease in short-term investments of $172.0 million and capital expenditures of $14.4 million. For the nine months ended September 30, 2006, investing activities included a decrease in short-term investments of $112.9 million and capital expenditures of $40.4 million; for the nine months ended September 30, 2005, investing activities included a decrease in short-term investments of $6.6 million and capital expenditures of $39.3 million.

Financing activities for the three-month period ended September 30, 2006 included the purchase of shares pursuant to a substantial issuer bid totaling $200.0 million. For the nine months ended September 30, 2006, financing activities also included the purchase of shares under a normal course issuer bid of $40.1 million and the redemption of the 11% Notes for $153.3 million. Financing activities for the three and nine-month periods ended September 30, 2005 included the payment of a special dividend totaling $238.2 million and the purchase of shares pursuant to a normal course issuer bid totaling $29.9 million.

Unused availability under the revolving credit facility at September 30, 2006 declined to $179.3 million compared to $190.9 million at June 30, 2006 due to an increase in the outstanding letters of credit.

TRADE

In mid-August, the Canadian International Trade Tribunal (CITT) announced its decision regarding the expiry review of its finding covering hot-rolled carbon and alloy steel sheet and strip. 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.

The finding was continued in respect of flat product originating in or exported from Brazil, the People's Republic of China, Chinese Taipei, India, South Africa and Ukraine. The finding was rescinded against goods originating in or exported from Bulgaria, the former Yugoslav Republic of Macedonia, and Serbia and Montenegro (formerly the Federal Republic of Yugoslavia).

The Company is pleased with the CITT decision as it covers several of the largest steel producing countries whose products are often the subject of unfair trade complaints.

The availability of low-priced offshore imports is putting pressure on steel product pricing in Canada and the U.S. High import volumes have contributed to increasing inventory levels in the market which, in turn, has driven reduced pricing and demand while industry inventory levels return to a more sustainable level. The Company will continue to review imports and trade action may be initiated if the Company is of the opinion that the imports are being dumped or subsidized.

OUTLOOK

Lower operating income, as compared to the third quarter, is expected in the fourth quarter. Lower steel pricing realizations and lower shipments will be the primary drivers. Selling prices and costs are subject to a high degree of variability and certain factors which could cause actual costs to vary from projections are noted in the last paragraph of this outlook section.

With abnormally high service center inventories, reduced demand from the automotive sector, and continued high import levels, current market conditions indicate a decline in pricing. Steel shipment levels are expected to decline in the fourth quarter as the Company manages shipment levels in the context of pricing changes and, in part, due to seasonal factors. As a result, lower selling prices and shipments are expected in the fourth quarter. Coke shipments for the fourth quarter are expected to be 10,500 tons.

Higher costs are expected in the fourth quarter due mainly to higher coal costs as the full effect of the new coal contract entered into earlier in 2006 is realized.

The Company currently projects that it will shut down its blast furnace for approximately 25 days in mid-2007 to perform work related to extending the blast furnace reline to 2010 or later. The Company is continuing to assess the scope and estimated costs related to this outage.

Certain statements made in this news release and 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.

THIRD QUARTER CONFERENCE CALL/WEBCAST PRESENTATION

The Company will conduct a conference call/webcast presentation on third quarter earnings on Friday, November 3 at 10:00 a.m. ET. The call and presentation can be accessed through Algoma Steel's website at www.algoma.com under Investors, then under Webcasts and Presentations, then under Webcast of Q3-2006 Earnings Results. The conference call can also be accessed by phone at 416-641-6440. For more information on Algoma Steel, visit its website at www.algoma.com.

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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 September 30 2006	**Nine Months Ended September 30 2006**	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
Sales	**$ 516.9**	**$1,521.3**	$ 446.4	$1,440.0
Operating expenses				
Cost of sales (before the following item)	**378.4**	**1,126.6**	363.9	1,030.4
Employees' profit sharing	**8.4**	**23.7**	4.4	25.6
	386.8	**1,150.3**	368.3	1,056.0
Administrative and selling	**17.8**	**54.1**	15.3	44.3
Amortization	**14.6**	**43.4**	16.4	42.0
	419.2	**1,247.8**	400.0	1,142.3
Other income (expense)	**(0.5)**	**0.6**	1.6	2.3
Income from operations	**97.2**	**274.1**	48.0	300.0
Financial expense (income)				
Interest on long-term liabilities	**-**	**0.2**	4.2	12.7
Foreign exchange loss (gain)	**0.3**	**3.2**	(4.0)	(4.2)
Premium on redemption of 11% Notes (note 3)	**-**	**7.9**	-	-
Other interest	**0.4**	**1.3**	0.5	1.4
Investment income	**(3.7)**	**(9.8)**	(4.3)	(11.8)
	(3.0)	**2.8**	(3.6)	(1.9)
Income before income taxes	**100.2**	**271.3**	51.6	301.9
Income taxes (note 7)				
Current	**37.5**	**106.2**	14.6	55.6
Future	**3.2**	**(6.3)**	6.2	61.7
	40.7	**99.9**	20.8	117.3
Net income	**$ 59.5**	**$ 171.4**	$ 30.8	$ 184.6
Net income per common share (note 5)				
Basic	**$ 1.62**	**$ 4.53**	$ 0.77	$ 4.61
Diluted	**$ 1.61**	**$ 4.50**	$ 0.77	$ 4.58
Weighted average number of common shares outstanding - millions (note 5)				
Basic	**36.77**	**37.86**	39.97	40.02
Diluted	**37.04**	**38.12**	40.22	40.29
Retained earnings				
Balance, beginning of period	**$ 430.0**	**$ 346.0**	$ 520.9	$ 367.1
Net income	**59.5**	**171.4**	30.8	184.6
Dividends	-	-	(238.2)	(238.2)
Purchase and cancellation of shares (note 4)	**(146.6)**	**(174.5)**	(15.7)	(15.7)
Balance, end of period	**$ 342.9**	**$ 342.9**	$ 297.8	$ 297.8

SUPPLEMENTAL NON-FINANCIAL INFORMATION

Operations (thousands of net tons)

Raw steel production	**662**	**1,964**	628	1,906
Steel shipments	**622**	**1,890**	588	1,700

See accompanying notes.

Algoma Steel Inc.

Consolidated Balance Sheets *(Unaudited)*

(millions of Canadian dollars)

	September 30 2006	December 31 2005
Current assets		
Cash and cash equivalents	**$ 60.0**	$ 172.6
Short-term investments	**149.3**	262.2
Accounts receivable	**286.6**	256.2
Inventories	**365.1**	321.5
Prepaid expenses	**32.8**	18.0
Future income taxes (note 7)	**2.5**	5.3
	896.3	1,035.8
Capital assets, net	**637.6**	641.5
Other long-term assets	**1.9**	1.5
Total assets	**$ 1,535.8**	$ 1,678.8
Current liabilities		
Accounts payable and accrued liabilities	**$ 154.8**	$ 153.6
Income and other taxes payable	**81.1**	57.0
Accrued pension liability and post-employment benefit obligation	**55.0**	25.9
11% Notes payable (note 3)	**-**	145.4
	290.9	381.9
Accrued pension liability and post-employment benefit obligation	**280.8**	257.4
Other long-term liabilities	**8.9**	9.2
Future income tax liability (note 7)	**123.3**	136.8
	413.0	403.4
Shareholders' equity		
Capital stock (notes 4 & 6)	**253.5**	306.6
Contributed surplus (notes 4 & 7)	**235.5**	240.9
Retained earnings	**342.9**	346.0
	831.9	893.5
Total liabilities and shareholders' equity	**$ 1,535.8**	$ 1,678.8

See accompanying notes.

Algoma Steel Inc.

Consolidated Statements of Cash Flows *(Unaudited)*

(millions of Canadian dollars)

	Three Months Ended September 30 2006	**Nine Months Ended September 30 2006**	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
Cash provided by (used in)				
Operating activities				
Net income	**$ 59.5**	**$ 171.4**	$ 30.8	$ 184.6
Payment of deferred compensation	**-**	**-**	(10.0)	(10.0)
Adjustments and items not affecting cash:				
Amortization	**14.6**	**43.4**	16.4	42.0
Pension expense in excess of payments (note 8)	**13.0**	**40.0**	2.6	3.7
Post employment benefit expense in excess of payments (note 8)	**4.1**	**12.5**	3.0	9.9
Future income tax expense (recovery)	**3.2**	**(6.3)**	6.2	61.7
Exchange gain on long-term debt and accrued interest	**-**	**-**	(7.8)	(4.9)
Loss (gain) on disposal of capital assets	**0.3**	**-**	0.4	(0.3)
Premium on redemption of 11% Notes (note 3)	**-**	**7.9**	-	-
Stock-based compensation (note 6)	**1.1**	**2.5**	1.3	3.2
Other	**0.8**	**0.5**	0.3	1.0
	96.6	**271.9**	43.2	290.9
Changes in non-cash operating working capital	**(14.2)**	**(64.6)**	(7.8)	15.6
	82.4	**207.3**	35.4	306.5
Investing activities				
Decrease (increase) in short-term investments	**(149.3)**	**112.9**	172.0	6.6
Capital asset expenditures	**(14.8)**	**(40.4)**	(14.4)	(39.3)
Proceeds on sale of capital assets	**0.4**	**1.0**	-	1.0
	(163.7)	**73.5**	157.6	(31.7)
Financing activities				
Dividends	**-**	**-**	(238.2)	(238.2)
Redemption of 11% Notes (note 3)	**-**	**(153.3)**	-	-
Purchase and cancellation of shares (note 4)	**(200.0)**	**(240.1)**	(25.6)	(25.6)
Shares purchased for cancellation	**-**	**-**	(4.3)	(4.3)
Decrease in other long-term liabilities	**-**	**-**	-	(0.2)
Proceeds on exercise of share options	**-**	**-**	0.1	0.1
Other	**(0.1)**	**-**	(0.1)	(0.1)
	(200.1)	**(393.4)**	(268.1)	(268.3)
Cash and cash equivalents				
Change during the period	**(281.4)**	**(112.6)**	(75.1)	6.5
Balance, beginning of period	**341.4**	**172.6**	267.8	186.2
Balance, end of period	**$ 60.0**	**$ 60.0**	$ 192.7	$ 192.7
Changes in non-cash operating working capital				
Accounts receivable	**$ (0.3)**	**$ (31.5)**	$ (13.0)	$ (11.0)
Inventories	**(47.0)**	**(43.6)**	(24.6)	(82.5)
Prepaid expenses	**10.5**	**(14.8)**	12.1	(7.2)
Accounts payable and accrued liabilities	**(9.7)**	**1.2**	5.3	68.5
Income and other taxes payable	**32.3**	**24.1**	12.4	47.8
	$ (14.2)	**$ (64.6)**	$ (7.8)	$ 15.6

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 Corporation 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 September 30, 2006, there was $179.3 million of unused availability under the Revolving Facility after taking into account $20.7 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	0.2
Shares purchased and cancelled under normal course issuer bid	(1,242,400)	(9.9)
Shares purchased and cancelled under substantial issuer bid	(5,479,452)	(43.4)
Options exercised	6,500	-
Directors' Share Award Plan (note 6):		
Shares issued	701	-
Balance at September 30, 2006	31,893,538	$ 253.5

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements *(Unaudited)*

(millions of Canadian dollars)

4. Share capital *(cont'd)*

During the three-month period ended September 30, 2006, there were no shares purchased under the normal course issuer bid that expired on August 7, 2006. During the nine months ended September 30, 2006, 1,242,400 common shares were purchased for $40.1 million under the normal course issuer bid. All shares acquired pursuant to the bid were cancelled. The excess of the purchase cost of these shares over the average paid-in amount was $30.2 million, which was charged $2.3 million to contributed surplus and $27.9 million to retained earnings. On September 21, 2006, the Corporation also purchased 5,479,452 shares pursuant to a substantial issuer bid for $200.0 million. The excess of the purchase cost of these shares over the average paid-in amount was $156.6 million, which was charged $10.0 million to contributed surplus and $146.6 million to retained earnings.

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 September 30 2006	**Nine Months Ended September 30 2006**	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
		(millions of shares)		
Basic weighted average number of common shares outstanding	**36.77**	**37.86**	39.97	40.02
Common shares issued on the assumed exercising of employee share options and restricted share units	**0.27**	**0.26**	0.25	0.27
Diluted weighted average number of common shares outstanding	**37.04**	**38.12**	40.22	40.29

6. Stock-based compensation plans

During the nine months ended September 30, 2006, 3,521 shares (2005 – 12,931) were awarded under the share award plan with an average fair market value of $34.07 per share (2005 - $30.33) including 2,951 shares (2005 – 1,064) awarded with an average fair market value of $34.10 per share (2005 - $25.77) in the third quarter.

There were no options (2005 – nil) granted in the third quarter and 413,360 options (2005 – 281,480) were granted in the nine months ended September 30, 2006 with a weighted average exercise price of $32.67 per share for 373,360 shares and $32.11 per share for the remaining 40,000 shares (2005 - $28.98). These shares have an estimated weighted average fair value of $18.01 and $17.66 respectively per option determined using the Black-Scholes model (2005 - $15.69).

There were no restricted share units (2005 – 36,354) granted in the third quarter and 2,500 restricted share units (2005 – 92,294) were granted in the nine months ended September 30, 2006 with a grant-date fair value of $32.11 per unit (2005 - $26.03).

The compensation expense recognized for all awards granted under these plans for the three and nine-month periods ended September 30, 2006 was $1.1 million and $2.5 million respectively, and for the three and nine-month periods ended September 30, 2005 was $1.3 million and $3.2 million respectively.

7. Income taxes

The Corporation's effective income tax rate for the third quarter of both 2006 and 2005 is higher than its statutory manufacturing and processing rate of 34.1% primarily due to a valuation allowance that has been taken against future 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 for the three and nine-month periods ended September 30, 2006 was $1.5 million (2005 – $2.1 million) and $4.5 million (2005 - $10.5 million), respectively.

The Corporation's estimate of non-capital losses available subsequent to the 2002 financial reorganization is currently under review by the Canada Revenue Agency and may be subject to change.

Algoma Steel Inc.

Notes to Interim Consolidated Financial Statements *(Unaudited)*

(millions of Canadian dollars)

8. Pension and other post-employment benefits

Pension expense for the three and nine-month periods ended September 30, 2006 was $13.3 million (2005 - $13.2 million) and $40.7 million (2005 - $39.7 million), respectively.

Post-employment benefits expense for the three and nine-month periods ended September 30, 2006 was $8.2 million (2005 - $6.8 million) and $23.8 million (2005 - $20.3 million), respectively.

9. Subsequent event

On October 16, 2006, a limited partnership wholly-owned by the Corporation, Algoma Energy LP (AELP), signed a power purchase agreement with the Ontario Power Authority. Pursuant to this agreement, AELP will construct and operate a seventy megawatt cogeneration power facility at the Corporation's plant site. The facility is expected to be operational by the end of 2008 and the estimated capital cost is $135 million.