

**Algoma Steel Inc.**

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# **Annual Information Form**

**Dated March 26, 2007**



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Unless otherwise stated, all dollar amounts referred to in this Annual Information Form are in Canadian currency.

This Annual Information Form and the documents incorporated by reference herein have been prepared in accordance with disclosure requirements in effect in Canada, which differ from disclosure requirements in the United States. Financial statements and other financial information included or incorporated by reference in this Annual Information Form have been prepared in accordance with Canadian generally accepted accounting principles, which differ in certain respects from generally accepted accounting principles in the United States, and accordingly, may not be comparable to financial statements and financial information of United States companies. The enforcement by investors of civil liabilities under the United States federal securities laws may be affected adversely by the fact that the Company is incorporated under the laws of Ontario, that a majority of its officers and directors are residents of Canada, and that substantially all of the assets of the Company are located outside of the United States.

**Forward-Looking Statements**

The 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 Management's Discussion and Analysis for the fiscal year ended December 31, 2006.

In addition to the factors noted in the Management's Discussion and Analysis for the fiscal year ended December 31, 2006, any number of factors could cause Algoma's actual results to differ materially from those anticipated in forward-looking statements including, without limitation: global and North American product demand; product mix; level of contract sales; foreign exchange rates and particularly the value of the Canadian dollar; global production levels; plant operating performance; capital investments and the related effect on performance; North American steel production levels and capacity utilization; substitute materials; natural gas prices and usage; raw materials availability and prices; changes in environmental, tax and other laws; North American and global economic performance and political developments; and fluctuations in interest rates, particularly long-term rates used to discount pension and post-retirement liabilities. Steel shipments and prices could also be affected by import levels and government actions or lack of actions with regard to imports.

This Annual Information Form has been reviewed by the Company's Board of Directors and contains information that is current as of December 31, 2006. Significant events in 2007 up to March 13, are identified with the date indicated. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect.

**Description of Business**

Algoma Steel Inc. (“Algoma” or the “Company”) is an integrated steel producer located in Sault Ste. Marie, Ontario and is Canada’s third largest integrated steel producer, accounting for approximately 15% of Canadian raw steel production. From its location in Sault Ste. Marie, Ontario, at the hub of three Great Lakes, the Company is well positioned to access the extensive steel markets within a 400-mile radius of its plant. In 2006, the Company produced approximately 2.6 million tons of raw steel and shipped approximately 2.4 million tons of finished products, primarily via rail or truck. Algoma’s principal product is sheet that represents 79% of Algoma’s 2006 shipments, with plate products accounting for the balance. The principal markets for Algoma’s products are steel service centres, the automotive industry, steel fabricators and manufacturers. Virtually all of Algoma’s production is sold in Canada and the United States, with approximately 33% of its sales to customers in the United States in 2006.

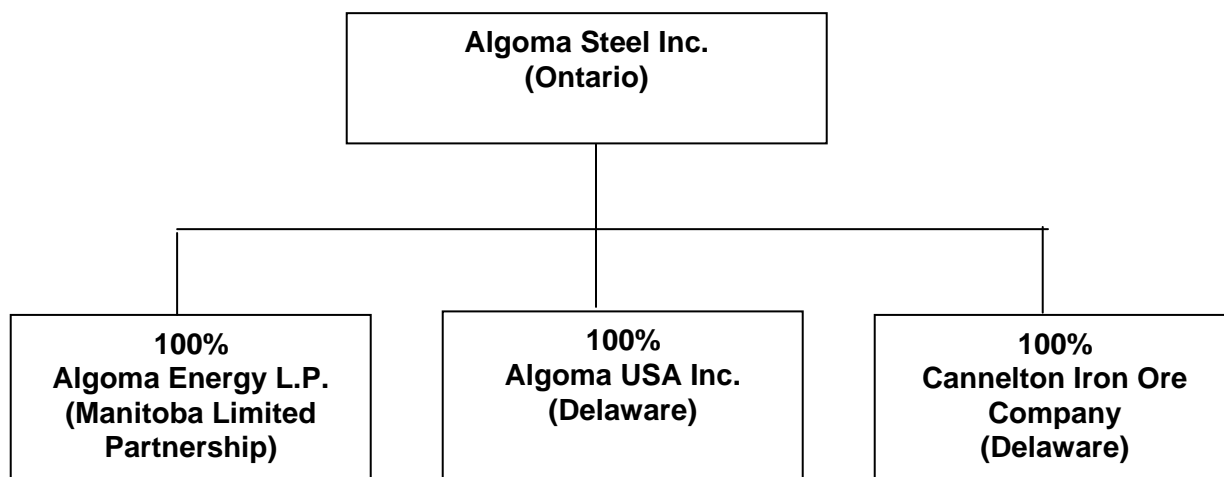
The registered and principal office of Algoma is located at 105 West Street, Sault Ste. Marie, Ontario P6A 7B4.

**Incorporation**

Algoma was incorporated under the laws of the Province of Ontario by Articles of Arrangement (the “Arrangement”) dated June 1, 1992. Pursuant to the Arrangement, Algoma acquired all of the assets and assumed certain liabilities of its predecessor company, The Algoma Steel Corporation, Limited, that conducted a business originally established in 1901. On January 29, 2002, the Company’s articles were further revised pursuant to a Plan of Arrangement and Reorganization (the “Reorganization”).

**Corporate Structure**

The following chart details the inter-corporate relationships between Algoma and its principal subsidiary companies and their jurisdiction of incorporation or organization as at December 31, 2006. Algoma USA Inc. and Cannelton Iron Ore Company are presently inactive. Algoma Energy L.P. was formed in 2006 for the purpose of building and operating a cogeneration facility at the Company’s plant site. Construction of the cogeneration facility will begin in 2007 and is expected to be completed by December 31, 2008.



## **Development of the Business**

The Company's priority in late 2002 and through 2003 was to strengthen its balance sheet while building an effective and efficient organization by initiating an accountability-based culture and optimizing the organizational structure. There was also progress realized in reducing the operating costs and improving the effectiveness of the commercial activities.

On September 3, 2003, the Company entered into a new four-year revolving credit facility with a syndicate of four banks. The \$200 million facility is secured by inventories and receivables and is subject to a borrowing base as determined by the agreement. The new facility resulted in increased availability and lower costs with no financial covenants until unused availability is less than \$50 million. The Company is required to maintain minimum availability of \$25 million. Liquidity was further enhanced in early 2004 as the Company completed an equity issue of 10 million shares resulting in net proceeds of \$82 million.

The Company benefited from stronger steel markets in 2004, 2005 and 2006 and the related cash flow resulted in a cash and short-term investments balance at December 31, 2006 of \$175 million after shareholder distributions of \$516 million and the redemption of all of the Company's long-term debt of \$153 million. The \$516 million was made up of a special dividend of \$238 million (\$6.00 per share), the cancellation of shares totaling \$78 million pursuant to a normal course issuer bid and the cancellation of shares totaling \$200 million pursuant to a substantial issuer bid. The Company intends to maintain a focus on margin improvement opportunities while exploring a broad range of strategic opportunities that support value creation and long-term sustainability.

In October 2006, the Company announced that its proposal for a new cogeneration power facility by its wholly owned Limited Partnership, Algoma Energy L.P. (AELP), was accepted by the Ontario Power Authority. Pursuant to the proposal, AELP will construct and operate a new 70 megawatt cogeneration power facility at the Company's plant site, supported by a 20 year power purchase agreement with the Ontario Power Authority. The new facility will be fuelled by blast furnace and coke oven gases from the Company's plant operations and will generate electricity and process steam. The facility is expected to be operational by the end of 2008. Based on the pricing formula in the power purchase agreement, the estimated cost of constructing and operating the facility and anticipated electricity and steam generation, the Company expects the new facility to contribute approximately \$30 million of incremental earnings before interest, taxes, depreciation and amortization ("EBITDA").

## **Business of Algoma**

### **North American Steel Industry**

Total raw steel production in North America was 144 million tons in 2006, up from 139 million tons in 2005. The United States, Canada and Mexico accounted for 75%, 12% and 13% respectively. Canada has been a net importer of steel since 1997 and a net exporter in the six years prior to 1997. The majority of Canadian export production has historically been sold in the United States. The purchase and sale of North American steel is customarily based on prevailing prices in the U.S. market denominated in U.S. dollars. Accordingly, a key factor in the relative competitive position of Canadian and U.S. producers is the Canadian/U.S. dollar exchange rate.

The Company currently accounts for approximately 15% of the steel produced in Canada. Demand for steel in Canada is distributed across a number of processors, manufacturers and end-users, with the automotive industry being the largest overall end-user of steel in Canada. The largest direct purchaser of steel is the service centre segment that acts as a product supplier to a number of end-users, primarily in the fabricating, manufacturing and automotive sectors.

The steel industry is cyclical in nature as indicated in the following table that sets out summary data with respect to steel shipments and consumption in Canada.

Year ended December 31,	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
(thousands of net tons)											
Total shipments from Canadian producers	16,169	15,650	16,289	16,394	16,605	15,657	16,446	16,482	15,496	15,981	15,576
Exports	6,716	6,550	5,943	6,045	6,136	5,063	5,531	5,234	5,207	5,253	5,304
Imports	10,519	9,467	8,876	6,861	6,959	6,132	8,710	6,748	7,425	6,291	3,972
Apparent steel consumption	19,972	18,567	19,222	17,210	17,428	16,726	19,625	17,996	17,714	17,019	14,244

## Products and Markets

The Company focuses on two principal product lines – sheet and plate steel.

### Sheet

The Company produces sheet that is sold as hot-rolled coils, cut-to-length product, cold-rolled coils and first-stage blanks. In 2006, sheet represented approximately 79% of the Company's steel shipments. In 2006, 1.8 million tons were produced on the Direct Strip Production Complex which has the capability to produce hot-rolled sheet in thicknesses from .040" to .625" and in widths from 31" to 63".

The major end-users of sheet products are the automotive industry, welded pipe manufacturers, hollow structural product manufacturers and the light manufacturing and transportation industries.

### Plate

Algoma's plate products consist of various carbon-manganese high-strength, low-alloy grades that are produced in either the as-rolled, normalized or quenched and tempered form. Plate widths vary from 32" to 152" and in thicknesses from 0.188" up to and including 3.5".

The major end-user of plate is the fabrication industry in either the construction or manufacture of railcars, buildings, bridges, off-highway equipment, storage tanks, ships and large diameter pipelines.

### Revenue by Major Product Line

In 2006, approximately 65% of the Company's steel sales were made in Canada, approximately 33% in the United States and the balance to other countries. Total revenue for each of the Company's major product lines for the last three years was as follows:

Year ended December 31,	2006	2005	2004
(millions of \$)			
Sheet	1,269	1,225	1,240
Plate	542	547	434
Freight	85	73	62
Non-steel Sales	44	73	67
	<u>1,940</u>	<u>1,918</u>	<u>1,803</u>
United States included above (principally sheet products)	<u>635</u>	<u>599</u>	<u>427</u>
Other countries included above	<u>43</u>	<u>37</u>	<u>26</u>

The distribution of total steel shipments by principal market for each of the last three years was as follows:

### Total Finished Steel Shipments by Major Markets

Year ended December 31,	2006		2005		2004	
(thousands of net tons)	Tons	%	Tons	%	Tons	%
Steel service centres (1)	1,183	49	1,163	51	1,251	57
Automotive including transportation	463	19	529	23	380	17
Fabricating and manufacturing	437	18	238	10	205	9
Pipe and tube manufacturing	341	14	353	16	362	17
Total	2,424	100	2,283	100	2,198	100

(1) Management believes that the Company's shipments to service centres were predominantly resold to the automotive and the fabricating and manufacturing sectors.

### Competition

The North American steel industry is a cyclical business that is subject to intense competition among producers with respect to price, service and quality.

The steelmaking business is also capital intensive and significant capital expenditures are required to achieve and maintain competitive levels of capacity, cost, productivity and product quality.

Offshore producers can be a significant competitive factor for the Company. In recent years, there has been a substantial increase in global steel capacity, particularly in China which has become the largest steel producer and consumer in the world. A significant slowdown in growth and/or increases in capacity, which exceeded consumption rates in China or other countries, could result in surplus steel which may be exported to world markets. In addition, many offshore steel producers are controlled or subsidized by foreign governments whose decisions concerning production and exports may be influenced by political and economic policy considerations and not merely by the objective of profit maximization. As a result, many offshore producers may continue to ship steel products into the North American market even in times of relatively low steel prices and narrow profit margins, thereby exacerbating adverse market conditions.

Competition in the North American steel industry has intensified as a result of the restructuring of certain integrated steel producers under applicable bankruptcy laws. Following these reorganizations, these companies generally have lower costs and have become more effective competitors.

Integrated steel producers like Algoma compete with mini-mills. The mini-mills are efficient, low-cost producers that produce steel from scrap in electric arc furnaces, have lower environmental compliance costs, target regional markets and typically employ non-union workers. The relative competitive position of mini-mills against integrated producers is influenced significantly by scrap prices relative to iron ore prices. During industry downturns, scrap prices have historically declined which has improved the competitive position of mini-mills.

Increases in the value of the Canadian dollar relative to the U.S. dollar make Canadian steel products and Canadian customers less competitive in U.S. markets. A strong Canadian dollar relative to the U.S. dollar also improves the competitive position of U.S. producers exporting to Canada. The impact of changes in the value of the Canadian dollar relative to other currencies may also have a significant effect on the degree of competition from producers outside North America. The negative effect of a stronger Canadian dollar on Algoma is partially mitigated by the purchase of the majority of raw materials in U.S. dollars and energy which has a U.S. dollar basis.

The Company's competitive position is affected by transportation costs to customers that are higher than those of other Canadian producers, which results in lower net selling prices. However, closer proximity to the source of its iron ore results in lower costs to transport iron ore to Sault Ste. Marie in comparison to certain competitors.

## Marketing Initiatives

The Company markets its sheet and plate products direct to end-users and also through distributors in Canada and the United States. The Company is focused on leveraging various competitive attributes of its process and product technologies in strategic market segments in order to improve market and customer segmentation. The Company pursues the development of applications and markets for its high strength and light gauge products to respond to application design factors.

## Trade

Steel imports into Canada in 2006 were 53% of the apparent Canadian consumption, a record high for the third straight year. Imports were 51% in 2005 and 46% in 2004. The previous record high was 44% in 2000.

During 2006, there was only one trade case covering the Company's products that was reviewed by the Canadian International Trade Tribunal (CITT). In mid-August, the CITT announced its decision regarding the expiry review of its finding covering hot-rolled carbon and alloy steel sheet and strip. The finding related to the dumping in Canada of Hot Rolled Sheet originating in or exported from Brazil, Bulgaria, the People's Republic of China, Chinese Taipei, India, the former Yugoslav Republic of Macedonia, Serbia and Montenegro (formerly the Federal Republic of Yugoslavia), South Africa, and Ukraine, and the subsidizing of Hot Rolled Sheet originating in or exported from India.

The anti-dumping and subsidy finding was continued in respect of Hot Rolled Sheet 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 was pleased with the CITT decision as it maintained the finding on Hot Rolled Sheet from several of the largest steel producing and exporting countries whose products are often unfairly traded.

During 2007, the Company anticipates a review to commence of an anti-dumping finding covering Plate originating in or exported from China, Russia and South Africa. A public hearing is expected in November, with a decision by the CITT in early January 2008.

The Company is particularly concerned about the level and growth of Plate imports from countries that had been covered by Canadian anti-dumping findings until those were rescinded, in addition to those from countries not previously covered.

Also of concern is the massive increase in steel production capacity in China. In 2003, China was the world's largest importer of steel. By 2006 China had become the world's largest exporter of steel. For Hot Rolled Sheet alone, capacity in China is expected to increase in 2007 by 20 million tons, which is approximately four times the size of the Canadian Hot Rolled Sheet market.

There remains in place an anti-dumping finding covering imports into Canada of Chinese Hot Rolled Sheet. However, new trade cases in other jurisdictions are being considered to cover such exports. This and the likelihood that such exports will continue to displace Hot Rolled exports from other countries in markets worldwide, is likely to result in large quantities of Hot Rolled looking for export markets, one of which could be Canada. The Company will continue to carefully monitor imports of all Algoma products and will file a complaint against any that are unfairly traded.

## Steelmaking Facilities

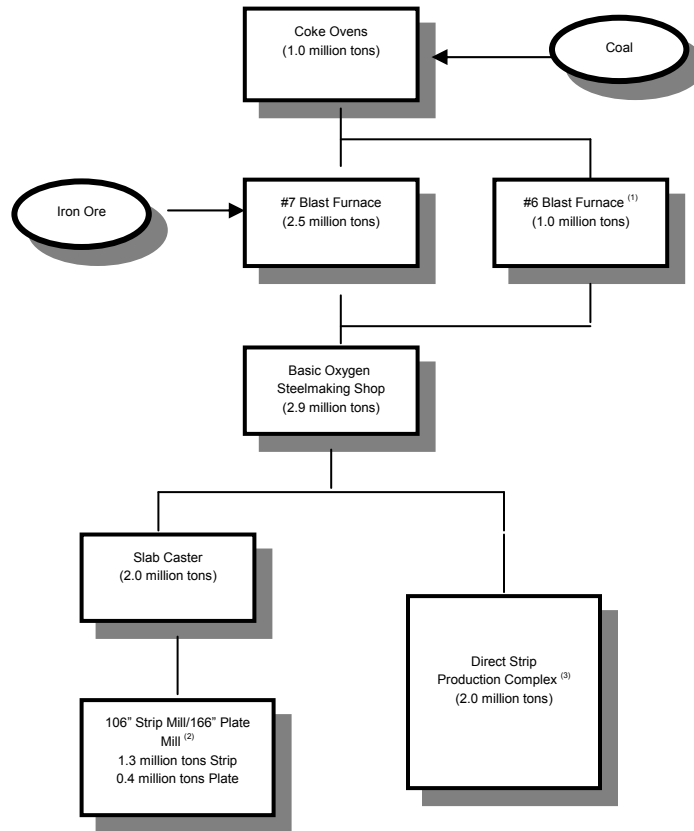
The Company is an integrated steelmaker in that it produces coke from coal, converts iron ore to iron, iron to liquid steel and produces finished and semi-finished steel products. The Company's production facilities include three coke batteries, two blast furnaces (one currently idle), one basic oxygen steelmaking shop, continuous casting facilities and rolling and finishing mills. To facilitate a further understanding of the Company's strategic response to technological changes in the steel industry, the following diagram illustrates the Company's existing steelmaking process.

**Physical Configuration**

(Annual capacities in parentheses)

Process

Cokemaking
Ironmaking
Steelmaking
Casting
Finished Products



- (1) The #6 blast furnace is currently idle.
- (2) The existing hot strip and plate mill can be used to produce either sheet or plate subject to market conditions. The casting and rolling mill capacity exceeds ironmaking and steelmaking capacity by a substantial margin. The 106" strip mill will be focused primarily on sheet sizes and grades not supported by the DSPC. In a 65% strip and 35% plate operation, the complex can produce 1.3 million tons of strip and 0.4 million tons of plate annually. In 2006, the complex operated at 64% capacity producing a total of 838 thousand tons of sheet and plate product. The increase in capacity utilization from the prior year was primarily due to an increase in the use of purchased slabs in the complex.
- (3) The Direct Strip Production Complex has a rated capacity of approximately 2.0 million tons, but produced 1.8 million tons in 2006.

## Raw Materials and Energy

### *Iron Ore*

In January 2002, Cannelton completed an agreement with Cliffs to transfer Cannelton's 45% interest in Tilden in exchange for the assumption by Cliffs of Cannelton's share of Tilden's liabilities and no cash consideration. As part of this arrangement, the Company entered into an exclusive 15-year supply agreement with Cliffs for a minimum annual supply of 2.5 million tons of iron ore. The arrangement permits Algoma to avoid certain risks associated with mine ownership. Iron ore costs under this agreement are tied to global pricing for iron ore. Global prices increased significantly in 2005, but declined by approximately 3% in 2006. If Algoma defaults under the supply agreement prior to December 31, 2008, then 50% of the liabilities assumed by Cliffs will revert back to Cannelton and Algoma.

### *Coal*

Algoma obtains two-thirds of its coal requirements through a supplier-owned consignment inventory agreement. The agreement is for a three-year term which expires March 31, 2009. The balance is purchased through supply agreements for one to two-year terms.

### *Other Raw Materials*

The Company purchases limestone, alloys and other raw materials for its manufacturing operation. The Company generates most of its scrap requirements internally and purchases any additional scrap as required.

## Energy

During 2006, fixed price contracts were in place for 40% of Algoma's monthly natural gas requirements. The fixed contract pricing closely approximated the average spot market pricing for the majority of the contract period.

During 2006, Algoma obtained electricity from the Independent Market Operator in Ontario at regulated spot prices.

Oxygen is supplied by Praxair Canada Inc. through a 15-year agreement that commenced July 1, 2000.

## Environment

The Company's environmental policy is to conduct its business in a manner that ensures it acts reasonably and responsibly with respect to the protection of the environment. Where appropriate, the Company has introduced environmental accountability to all employees. All activities that may have an impact on the external environment have been identified and managed through the implementation of the ISO14001 compliant environmental management system. The Company successfully maintained certification of all operating facilities and direct support areas to the ISO14001 standard.

In 2006, Algoma commenced discussions with the Ontario Ministry of the Environment to develop a voluntary environmental management agreement that is proposed to cover the period from 2007 through to 2011. Algoma is committed to acting in a proactive manner to address environmental issues that are currently not covered by legislation and will continue voluntary discussion through 2007.

Algoma continues to pursue opportunities to reduce the impact of its operations on the environment. Algoma recently submitted a mine closure plan to the Ministry of Northern Mines and Development for the mining operations, located in Wawa, Ontario that ceased operations in 1998. The plan will ensure that the existing site is properly closed and managed.

The Company continues active participation in national discussions to address climate change and the reduction of carbon dioxide emissions within the steel sector. Algoma is a supporting company to the Memorandum of Understanding that was signed between the Canadian Steel Producers Association and the federal government. The memorandum establishes a commitment to work towards developing reduction targets for the industry. Algoma continues to reduce its energy and carbon dioxide intensities.

## Environmental Protection

Algoma is committed to the following significant capital expenditures related to the environment:

### #7 Blast Furnace Cast House Emissions Control

- Algoma is committed through a certificate of approval to install cast house emission controls by 2010.
- In 2005, Algoma submitted an application, along with the associated preliminary engineering, to the Ministry of the Environment for a certificate of approval for cast house emission controls.

- Costs associated with this project are estimated to be in the order of \$28 million.

#### Noise Abatement Action Plan

- Algoma is committed through a certificate of approval to implement a Noise Abatement Action plan.
- Algoma has completed and submitted a Preliminary Engineering report to identify order of magnitude costs and methods of noise mitigation.
- Algoma initiated mitigation activities in 2005. The complete mitigation is a multi-year project.

#### Algoma Ore Division

- Algoma is committed to the completion of the closure plan submitted to the Ministry of Northern Mines and Development.

## Employees

The Company employed approximately 3,200 people as at December 31, 2006 of which approximately 3,100 or 97% are unionized and represented by two Locals of the United Steelworkers of America ("USWA") under two collective bargaining agreements. Both of these agreements expire July 31, 2007.

## Debt Instruments

### *Banking Facilities*

The Company has a Loan and Security Agreement ("Agreement") that expires on September 3, 2007 and provides the Company 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 Company's accounts receivable and inventories less certain reserves. The Company is required to maintain a minimum availability of \$25 million. The Revolving Facility 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 1.50% above either the Canadian prime bank rate or the U.S. base rate or, at the Company's option, at rates fluctuating 1.75% and 2.50% over bankers' acceptance rate or London interbank offering rate ("LIBOR").

### *Long-Term Debt*

The 11% Notes, totaling \$125 million U.S., were due in 2009 but were redeemable after 2005 at a declining premium ranging from 105.5% of principal in 2006 to 101.4% in 2008. On November 2, 2005, the Company approved the irrevocable redemption of the 11% Notes. On January 3, 2006, the 11% Notes were redeemed at a premium of 105.5% of the principal balance for cash payments totaling \$153 million.

## Legal Proceedings

There are no legal proceedings involving a material amount outstanding against the Company.

## Recent Developments

On February 14, 2007, Algoma announced that it was approached by and was in discussions with a third party regarding a possible acquisition of the Company. On February 15, 2007, Algoma identified Salzgitter AG as the third party with whom it was in discussions. On March 13, 2007, Algoma announced that its discussions with Salzgitter AG regarding a possible acquisition had been terminated and that it would be entering into discussions with other parties who had expressed an interest in acquiring the Company. Algoma cautioned that there could be no assurance that any agreement would result from these discussions or that any transaction would be completed.

## **Risks And Uncertainties**

### **Overview**

The primary goals of managing risks are: (i) to ensure that risks are properly identified and controlled, (ii) to ensure that mechanisms exist to identify risks, analyze and assess their impact on the Company and, (iii) to monitor changes in those risks and communicate the risks to all levels of management, the Board of Directors as well as existing and prospective shareholders. While management is confident that the Company employs effective procedures to address all material risks, the Company is engaged in a comprehensive Enterprise Risk Management program. The objective of this program is the development of a comprehensive approach to anticipate, identify, prioritize, manage and monitor the portfolio of business risks impacting the Company and ensure the best policies, processes, accountabilities and reporting and technology are in place to successfully execute. The Audit Committee and Board of Directors plays an important role in developing risk management programs and monitoring them on a regular basis.

### **Highly Competitive Nature of the Global Steel Industry**

In recent years, there has been a substantial increase in global steel capacity, particularly in China which has become the largest steel producer and consumer in the world. China's steel making capacity has increased to an estimated 600 million tons annually. In addition there has been consolidation of global steel producers and the emergence of an industry leader with global capacity exceeding 120 million tons representing approximately 10% of the global steel market and several other producers each producing in excess of 30 million tons of steel. Comparatively, the Company's production capacity is 2.5 million tons. A significant slowdown in growth and/or increases in capacity, which exceed consumption rates in China, could result in surplus steel which may be exported to world markets. In addition, an economic downturn which affects demand for the Company's products or an increase in the strength of the U.S. dollar or Canadian dollar relative to other currencies could increase imports. It is, therefore, possible that more unfairly priced imports could enter into the North American markets at a future date, resulting in further price erosion, which would adversely affect the Company's ability to compete, its revenue and its profitability.

Algoma competes with numerous foreign and domestic steel producers. Some of its competitors have greater financial and capital resources than Algoma does and continue to invest heavily to achieve increased production efficiencies, increased capacity and improved product quality. Algoma primarily competes with other steel producers based on the delivered price of finished products to Algoma's customers. Algoma's labour, raw material and energy costs are higher than many foreign producers. Although freight costs for steel can often make it uneconomic for distant steel producers to compete with the Company, to the extent that they have lower cost of sales such as lower labour, raw material or energy costs or are government subsidized, they may be able to successfully compete. Although the Company is continually striving to improve its operating costs, it may not be successful in achieving labour, raw material and energy cost improvements or gaining operating efficiencies that may be necessary to remain competitive on a global scale.

The North American steel industry has faced increased competition from foreign steel producers. Some non-market economy foreign steel producers are owned, controlled or subsidized by their governments and their decisions with respect to production, sales and exports may be influenced more by political and economic policy considerations than by prevailing market conditions. In addition, foreign steel producers may be subject to less restrictive regulatory and environmental regimes that could provide a cost advantage relative to North American producers.

The domestic steel industry has experienced lengthy periods of difficult markets due to increased foreign imports. Due to unfavourable foreign economic conditions, excess foreign capacity and a strong Canadian and U.S. dollar, imports of steel products to the U.S. and Canadian markets have reached high levels and, in some cases, have been sold at prices below their combined production and export costs. From 1995 to 2005, U.S. steel industry production capacity utilization levels ranged from a high of 93.3% in 1995 to a low of 79.2% in 2001 and was approximately 87.9% in 2006.

Since the beginning of 1997, over 35 U.S. steel companies have sought protection under Chapter 11 of the *United States Bankruptcy Code*. Many of these companies continued to operate, while reducing prices to maintain volumes and cash flow and obtaining concessions from their labour unions and suppliers. Some companies have even expanded and modernized during these reorganizations. Upon emerging from reorganization, these companies, or new entities that purchased their facilities through this process, have been relieved of many obligations including environmental, employee and retiree benefits and other obligations, commonly referred to as legacy costs. As a result, they may be able to operate with lower costs than Algoma.

## Low Priced Imports and Trade Regulation

The Company's business has historically been affected by both Canadian and United States trade legislation intended to limit "dumping", a practice employed by certain foreign competitors that have sold steel into the United States or Canadian markets at prices below their costs or below prices prevailing in their own domestic markets. Such practices may result in injury to companies producing goods in Canada or the U.S. in the form of suppressed prices, lost sales, lower profits and reductions in production, employment levels and the ability to raise capital. Although in a number of cases Canadian trade laws have been successfully employed in the past, they may be inadequate to prevent future unfair import pricing practices which individually or collectively could materially adversely affect the Company. If current and future trade cases do not provide relief from such trade practices, relevant Canadian trade laws are weakened, world demand for steel decreases, or the U.S. or Canadian dollars strengthen against foreign currencies, an increase in the market share of imports into Canada may occur, which could have a material adverse effect on the Company. Moreover, trade regulations in other countries, particularly the United States, could materially adversely affect Algoma to the extent that they reduce or eliminate Algoma's access to certain steel markets. There can be no assurances that the Company will be able to compete effectively in the future.

A change in the situation in China could have a significant impact on steel markets in the rest of the world. China is presently increasing steel producing capacity by millions of tons every year. They are also importing large volumes of raw materials and some finished steel. China's imports of raw materials are driving up prices in the rest of the world, particularly for iron ore, coal and scrap. Chinese demand for vessels to import raw materials and export finished products has also caused increasing ocean freight rates. The combination of these factors has provided support for steel prices. As the Chinese supply of steel is brought into balance with the demand, countries presently exporting to China will be searching for alternative markets. Since Canada and the U.S. are the largest "open market" in the world, imports from these other countries could impact the North American market resulting in a loss of sales volume, price and profitability for the Company.

## Cyclicality of the North American Steel Industry

The North American steel industry is cyclical in nature and sensitive to general economic conditions. The financial condition and results of operation of companies in the steel industry are generally affected by macroeconomic fluctuations in the Canadian, U.S. and global economies. Due mainly to its product mix, Algoma has a higher exposure to spot markets than most of its North American competitors and is, therefore, subject to more volatility in its selling prices. In addition, steel prices are sensitive to trends in cyclical industries such as the North American automotive, construction, appliance, machinery and equipment, and transportation industries, which are significant markets for the Company's products. In addition, many of its customers are affected by North American and worldwide economic downturns, which have resulted, and may in the future result, in defaults in the payment of accounts receivable owing to the Company and reduced sales levels. Although the Company has fixed-price customer contracts which typically range between 35% and 50% of total shipments, the majority of the contracts do not exceed one year in duration and may be difficult to enforce if a customer does choose to breach the contract.

## Supply and Cost of Raw Materials and Energy

Algoma's operations require substantial amounts of raw materials and energy including coal, iron ore, alloys, scrap, oxygen, natural gas, electricity and other inputs. The price and availability of such raw materials and inputs are subject to market forces and, in some cases, government regulations and accordingly, are subject to change. The cost of iron ore is expected to increase by approximately 5% in 2007 and coal costs are projected to decrease by 8%. Substantially more iron than coal is purchased resulting in a net cost increase. The Company could be particularly adversely affected during a period of declining selling prices for steel without a corresponding decline in raw material costs. Algoma's results of operations could be adversely affected by supply interruptions or further increases in the cost of materials. Algoma's iron ore, coal, alloy and scrap costs would be adversely affected by a decrease in the relative value of the Canadian dollar. There can be no assurance that adequate supplies of oxygen, electricity, natural gas, coal, iron ore or alloys will be available in the future or that future increases in the cost of such materials will not adversely affect Algoma's operations.

## Currency Fluctuations

The prices for steel products sold in Canada are derived mainly from price levels in the U.S. market in U.S. dollars converted into Canadian dollars at the prevailing exchange rates. As a result, a stronger Canadian dollar relative to the U.S. dollar reduces the Company's Canadian dollar selling prices for sales in both Canada and the U.S.

Increases in the value of the Canadian dollar relative to the U.S. dollar make Canadian steel products and Canadian customers less competitive in U.S. markets and also encourage imports from the U.S. Therefore, a significant increase in the value of the Canadian dollar could materially and adversely affect Algoma's results of operations and financial condition.

Algoma considers its currency hedging strategy from time to time and currently has no hedging contracts in place.

There is a high correlation between U.S. dollar exchange rates, as compared to global currencies, and the price of steel, especially commodity grades. Weakness in the U.S. dollar will generally provide support to increased steel prices. To the extent that the Canadian to U.S. dollar exchange rate moves consistently with U.S. dollar to global exchange rates, the impact of the U.S. dollar to Canadian dollar exchange rate may be offset by changes in steel prices.

Increases in the value of the Canadian dollar relative to the home currencies of global steel producers would also increase the probability of increased imports.

### **Under-funding of Pension Plans**

The Company's pension plans had an aggregate funding deficiency of \$249 million as at the measurement date of November 30, 2006 (excludes the effect of the \$85 million of funding in December 2006), based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2006, on a solvency basis which currently represents the basis for annual pension funding, is estimated at \$92 million and includes the effect of the \$85 million of funding in December 2006. Employer contributions in 2006 were \$101 million which included the \$85 million prepayment of future funding obligations. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund \$56 million in 2007 which has been satisfied by the \$85 million pre-funding in 2006. Expected benefit payments for 2007 are \$35 million. A significant portion of the estimated increased funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to changes to the collective bargaining agreements, a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations.

### **Post-Employment Benefits**

The Company provides certain post-employment benefits to its retirees. These benefits include drug, life insurance and hospitalization coverage. The Company does not pre-fund these obligations. At the measurement date, November 30, 2006, the unfunded actuarial liability for these obligations was \$395 million. The cash paid in 2006 to fund these benefits was \$16 million. Expected benefit payments for 2007 are \$17 million. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company.

### **Substantial Capital Investment, Capital Commitments and Maintenance Expenditures Required**

The Company's operations are capital intensive. Algoma expects to be required to make ongoing capital expenditures in an effort to achieve and maintain competitive levels of capacity, cost, productivity and product quality. Total capital expenditures were \$36.8 million, \$42.4 million, \$56.5 and \$67.4 million for the years ended December 31, 2003, 2004, 2005, and 2006 respectively. Capital expenditures at these levels may not be sustained indefinitely and the Company expects to maintain a long-term annual average capital investment of \$60 million excluding special initiatives such as the cogeneration facility. Capital expenditures in 2007 are currently projected at approximately \$152 million.

There are two significant projects facing the company in 2007: a partial reline of the #7 Blast Furnace and the construction of a cogeneration facility. The partial reline of the #7 Blast Furnace is scheduled for July at an estimated cost of \$41 million (of which, approximately \$12 million was purchased in 2006). In addition to the capital expenditure for the reline, there is a substantial operating cost penalty during the partial reline related to lower production volume and the need for purchased slabs. While the expectation is that the partial reline work scheduled to be completed in 2007 may impact the timing of the full reline work currently planned for 2010 the full impact of this work can not be determined until completed.

The cogeneration investment was announced in October 2006 with planning and procurement in progress. Outlays in 2007 are anticipated to be \$65 million with a total \$135 million outlay (inclusive of \$14 million of internal financing costs) anticipated by the end of 2008.

While the Company currently has cash and short-term investments totaling \$175.1 million and no debt, the Company may not generate sufficient future operating cash flow and external financing sources may not be available in an amount sufficient to enable it to make anticipated capital expenditures, service or refinance its indebtedness, or fund other liquidity needs.

## Variability of Financial Results

Algoma's financial results may fluctuate substantially, not only due to the cyclical nature of the steel industry and fluctuations in foreign exchange rates, but also due to other factors such as Algoma's higher exposure to spot markets than most of its North American competitors, specific product competition, operating performance, uncontrollable increases in prices of raw materials and energy, and difficulties or delays in capital projects. Although selling prices were relatively high in 2005 and 2006 as compared to pre 2004 levels, no assurance can be given that these price levels will be sustained in the future.

## Adverse Impact of the Company's Level of Indebtedness

The Company currently has no debt, but is considering the incurrence of some debt in order to establish a more appropriate capital structure and fund potential future capital needs. If the Company proceeds to incur debt, its debt obligations are expected to be manageable under current circumstances, but a change in steel market conditions or other variables may necessitate consideration of refinancing or the adoption of alternative strategies to reduce or delay expenditures, selling assets or seeking additional equity capital.

## Financial Restrictions

The loan agreement related to the Revolving Facility and other agreements governing Algoma's indebtedness contain provisions that limit its ability to pay dividends or make other restricted payments or investments, incur additional indebtedness, create liens on assets, merge, consolidate or sell all or substantially all of its assets, and create restrictions on dividends or other payments by restricted subsidiaries. In addition, Algoma's Revolving Facility contains restrictive covenants that require Algoma to maintain a minimum unused availability of \$25 million and to maintain financial ratios when unused availability is below \$50 million, including minimum levels of cash flow to total debt service and maximum annual capital expenditure levels. Algoma's ability to comply with these restrictions may be affected by events beyond its control. Algoma does not currently draw on the Revolving Facility; however, results from future operations, future capital spending, or other uses of cash may make it necessary for the Company to draw on the Revolving Facility in the future. Algoma may not achieve operating results that will permit it to meet these restrictive covenants or may need to take business actions prohibited by these covenants. These covenants may also limit Algoma's ability to obtain additional or more favourable financing. In addition, substantially all of Algoma's receivables and inventories have been pledged to secure its Revolving Facility.

## Labour Matters

Algoma has approximately 3,200 employees, of which approximately 3,100, representing 97% of the Company's employees, are represented by two locals of the United Steelworkers of America under two collective bargaining agreements. The collective agreements expire July 31, 2007. Algoma may be unable to successfully negotiate new collective bargaining agreements without any labour disruption.

Algoma's customers, or companies upon which Algoma is dependent for raw materials, transportation or other services, could also be affected by labour difficulties. Any such activities, disruptions or difficulties could result in a significant loss of production and sales and have a material adverse effect on Algoma's financial condition or results of operations.

## Environmental Matters

Algoma's operations are required to comply with an evolving body of environmental laws concerned with, among other things, emissions into the air, discharges to surface and ground water, the investigation and remediation of contaminated property, noise control, waste management and disposal, mine closure and rehabilitation, and the generation, handling, storage, transportation, presence and disposal of toxic and hazardous substances. These laws and regulations vary depending on the location of the facility and can fall within federal, provincial or municipal jurisdictions.

In the United States and Canada, certain environmental laws and regulations impose joint and several liabilities on certain classes of persons for the costs of investigation and remediation of contaminated properties. Liability may attach regardless of fault or the legality of the original management or disposal of the substance or waste. Some of the Company's present and former facilities have been in operation for many years and, over such time, have used substances and disposed of wastes that may require investigation and remediation. Algoma could be liable for the costs of such investigations and remediation. Costs for any remediation of contamination, on or off site, whether known or not yet discovered, or to address other issues relating to waste disposal, mine closure, emissions into the air or water, or the storage of materials, could be substantial and could have a material adverse effect on Algoma's results of operations.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to install, by 2010, certain equipment in the No. 7 Blast Furnace to reduce casthouse emissions. The cost of this equipment and its installation is currently estimated at \$25-\$30 million. The actual cost of the equipment and its installation could vary significantly due to cost escalation, design changes, regulatory policies, or other factors.

Pursuant to a Certificate of Approval issued by the Ontario Ministry of Environment, the Company is required to apply technology or process changes to mitigate noise levels from identified sources within the Sault Ste. Marie operations. It is estimated that the capital cost associated with the noise abatement plan is in the order of \$3 million during the period of 2007 through to 2012.

The Company is required to fund the capital and operating cost of a mine closure in Wawa involving capital costs of approximately \$2 million during the period of 2010 to 2020. Future operating costs for the mine closure program are estimated at \$50,000 - \$100,000 annually until 2020, and then \$200,000 to \$300,000 commencing in 2020 for the foreseeable future. Financial assurance in the order of \$7.4 million will be provided to the Province of Ontario in the form of a letter of credit.

Algoma's Environment, Health and Safety Department regularly reviews and audits the Company's operating practices to monitor compliance with Algoma's environmental policies and legal requirements.

No assurance can be given that unforeseen changes, such as new laws or stricter enforcement policies, or a crisis at one of Algoma's properties or operations, will not have a material adverse effect on the business, estimated capital or operating costs, financial condition, or results of operations of Algoma. Algoma's operations are required to have governmental permits and approvals. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect the operations of Algoma and may subject Algoma to penalties. In addition, if environmental laws are amended or are interpreted or enforced differently, or if new environmental legislation is enacted, Algoma may be required to obtain additional operating permits or approvals and incur additional costs. There can be no assurance that Algoma will be able to meet all applicable regulatory requirements. In addition, Algoma may be subject to fines, penalties or other liabilities arising from its actions imposed under environmental laws, including as a result of actions or other proceedings commenced by third parties, such as neighbors or government regulators.

## **Technology and Competition**

There is ongoing research and technological developments with respect to the various processes associated with steel production which have the potential to reduce costs and improve quality. It is possible that certain developments could substantially impair the Company's competitive position if other companies implement new technology and the Company does not or cannot.

## **Competition of Products with Other Materials**

In the case of certain product applications, steel competes with a number of other materials such as plastic, aluminum, and composite materials. Improvements in the technology, production, pricing or acceptance of these competitive materials relative to steel or other changes in the industries for these competitive materials could cause net sales to decline.

## **Unexpected Equipment Failures**

Algoma's manufacturing processes are dependent upon critical steelmaking equipment such as furnaces, continuous casters, rolling mills, and electrical equipment (such as transformers), and this equipment may incur downtime as a result of unanticipated failures. The Company has experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected interruptions in production capabilities would adversely affect productivity and results of operations for the affected period. No assurance can be given that a significant shutdown will not occur in the future or that such a shutdown will not have a material adverse effect on the business, financial condition or results of operations of the Company. In addition, an unexpected failure in the Company's computer system may have the same result.

## **Dependence on Senior Management**

Algoma's operations and prospects depend, in large part, on the performance of Algoma's senior management team. The Company cannot assure that such individuals will remain as employees. In addition, Algoma can make no assurance that it would be able to find qualified replacements for any of these individuals if their services were no longer available. The loss of the services of one or more members of senior management or difficulty in attracting, retaining and maintaining additional

senior management personnel could have a material adverse effect on Algoma's business, financial condition and results of operations.

### Insurance

To date, Algoma has been able to obtain liability insurance for the operation of its business. However, there can be no assurance that Algoma's existing liability insurance will be adequate, or that it will be able to be maintained, or that all possible claims that may be asserted against Algoma will be covered by insurance.

### Tax Loss Carry-forwards

The Company's income tax loss carry-forwards were reduced by approximately \$180 million under the financial reorganization as a result of debts being discharged for less than their principal amount. The Company had substantial amounts of Federal and Ontario non-capital loss carry-forwards, but fully utilized these losses by the third quarter of 2005. Algoma's estimate of non-capital loss carry-forwards is currently under review by the Canada Revenue Agency and could be reduced, subjecting Algoma to a tax liability if the Company is unsuccessful in supporting its positions.

### Effect of Potential Future Acquisitions

Algoma believes that there continues to be significant opportunity for future growth through selective acquisitions given the pace of consolidation in the steel industry and the increasing trend of its customers to focus on fewer key suppliers. As a result, Algoma intends to continue to apply a selective and disciplined acquisition strategy. Possible future acquisitions will likely involve a number of risks.

Future acquisitions may be required for the Company to remain competitive, but there can be no assurance it can complete any such transactions on favourable terms or that it can obtain financing, if necessary, for such transactions on favourable terms. In addition, there can be no assurance that future transactions will improve the Company's competitive position and business prospects as anticipated; if they do not, its results of operations may be adversely affected.

### Dividend Policy

The Company has not paid any regular dividends on its common shares, but did pay a special dividend in 2005 of \$6.00 per share or \$238 million.

### Capital Structure

The Company is authorized to issue an unlimited number of common shares. At December 31, 2006, there were 31,896,358 common shares issued and outstanding. Each holder of common shares is entitled to one vote per share held at all meetings of shareholders.

### Directors and Executive Officers

The following are the names and municipalities of residence of the Company's current directors and executive officers and their respective offices and principal occupations during the five preceding years. Directors are elected to serve until the next Annual Meeting of Shareholders.

Director's Name	Director Since
<b>Alex Davidson</b> <sup>(1) (2) (4)</sup> Minesing, Ontario, Canada	May 11, 2005
Director, EPCOR Utilities Inc., an integrated energy provider in North America, 2005-present; Trustee, UE Waterheater Income Fund, 2003-present; Business Consultant (part-time), 1999-present; previously Senior Business Assurance Partner, PricewaterhouseCoopers LLP.	

Director's Name	Director Since
<p><b>Benjamin Duster</b> <sup>(5) (6)</sup> Atlanta, Georgia, USA</p> <p>Chairman of the Board of the Company; Director, Catalyst Paper Corporation, a leading producer of newsprint and mechanical printing papers in North America, Dec. 2006-present; Chair of Audit Committee, RCN Corp., Dec. 2004-present; Senior Adviser, Watermark Advisers LLC, 2002-present; Masson &amp; Company, LLC, 2001-2005; Managing Director, Mergers and Acquisitions, Wachovia Securities, 1997-2001.</p>	January 29, 2002
<p><b>John Kallio</b> <sup>(2)</sup> Sault Ste. Marie, Ontario, Canada</p> <p>Union Representative – Wage Evaluation/WSIB Benefits, June 2006-present; Production Worker – Plate &amp; Strip Complex, September 2005-June 2006; and Union Department Steering Committee Co-Chair – Plate &amp; Strip Complex, 2002-September 2005 – all positions with the Company. Mr. Kallio was a director of the Company during its Companies Creditors Arrangement Act process in 2001-2002.</p>	October 29, 1996
<p><b>Marie Kelly</b> <sup>(2)</sup> Toronto, Ontario, Canada</p> <p>Assistant Director, United Steelworkers, District 6, a trade union, 2001-present; Counsel to United Steelworkers, 1991-2001.</p>	October 27, 2004
<p><b>Patrick Lavelle</b> <sup>(1) (4) (5) (6)</sup> Toronto, Ontario, Canada</p> <p>Chairman and CEO, Patrick J. Lavelle and Associates, a strategic management consulting firm. Mr. Lavelle used to be a director of Slater Steel which filed for creditor protection in Canada and the U.S. in 2003.</p>	January 29, 2002
<p><b>James Lawson</b> <sup>(3) (4) (6)</sup> Oakville, Ontario, Canada</p> <p>President and CEO, Westerkirk Capital Inc., a private investment firm, 2004-present; Partner, Torys LLP, 2001–2004; Senior Vice President – Corporate Development and General Counsel, XO Communications Canada Inc., 2000-2001.</p>	January 29, 2002
<p><b>Charles Masson</b> <sup>(1) (4)</sup> New York, New York, USA</p> <p>Partner, Masson &amp; Company, LLC, an operational restructuring consulting firm, 1998-present. Mr. Masson has acted as a director or officer of the following firms during or immediately prior to their insolvency proceedings: Stockton Pacific Enterprises; Grand Union; Global Aqua-USA; Color Tile, Inc.</p>	February 28, 2002
<p><b>Murray Nott</b> <sup>(5)</sup> Sault Ste. Marie, Ontario, Canada</p> <p>Metallurgical Specialist – Quality Engineering, Algoma Steel Inc., 1997-present. Mr. Nott was a director of the Company during its Companies Creditors Arrangement Act process in 2001-2002.</p>	June 1, 1992

Director's Name	Director Since
<p><b>Francis Petro</b> <sup>(1) (2) (3)</sup> Kokomo, Indiana, USA</p> <p>President and CEO of Haynes International Inc., a technology-oriented company devoted primarily to the development and manufacture of high-performance nickel- and cobalt-based alloys, 1999-present.</p>	May 22, 2003
<p><b>Nicholas Tolerico</b> <sup>(3) (5)</sup> Fort Mill, South Carolina, USA</p> <p>Former President, Thyssen Krupp Steel Services, a global materials management company, 1999-2005.</p>	May 3, 2006
<p><b>Denis Turcotte</b> Sault Ste. Marie, Ontario, Canada</p> <p>President and CEO of the Company, September, 2002 - present; President – Paper Group/Executive Vice President Corporate Development and Strategy, Tembec Inc., 1999-2002.</p>	October 4, 2002

- (1) Member of the Audit Committee.  
(2) Member of the Health, Safety and Environment Committee.  
(3) Member of the Human Resources and Compensation Committee.  
(4) Member of the Corporate Governance Committee.  
(5) Member of the Strategic Planning Committee.  
(6) Member of the Special Committee.

Algoma does not have an Executive Committee.

Officer's Name	Office and Principal Occupation
<p><b>Benjamin Duster</b> Atlanta, Georgia, USA</p>	<p><b>Chairman of the Board, February 2002-present;</b> Director, Catalyst Paper Corporation, a leading producer of newsprint and mechanical printing papers in North America, Dec. 2006-present; Chair of Audit Committee, RCN Corp., Dec. 2004-present; Senior Adviser, Watermark Advisers LLC, 2002-present; Masson &amp; Company, LLC, 2001-2005; Managing Director, Mergers &amp; Acquisitions, Wachovia Securities, 1997-2001.</p>
<p><b>Denis Turcotte</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>President and Chief Executive Officer, September 2002-present;</b> President, Paper Group/Executive Vice President Corporate Development and Strategy, Tembec Inc., 1999-2002.</p>
<p><b>Stephen Boniferro</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Human Resources, July 1998-present.</b> Mr. Boniferro was an officer of the Company during its Companies Creditors Arrangement Act process in 2001-2002.</p>

Officer's Name	Office and Principal Occupation
<p><b>Paul C. Finley</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Business Planning and Corporate Secretary, November 2002-present;</b> General Counsel and Corporate Secretary of the Company, 1992-2002. Mr. Finley was an officer of the Company during its Companies Creditors Arrangement Act process in 2001-2002.</p>
<p><b>Daniel J. Ardila</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Finance and Chief Financial Officer, April 2006-present;</b> Executive Vice President and Chief Financial Officer, CPI Plastics Group Ltd., 1997-2006.</p>
<p><b>Armando Plastino</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Operations, March 2002-present;</b> General Manager, Flat Roll Operations of the Company, November 1999-2002.</p>
<p><b>Paul Royal</b> Oakville, Ontario, Canada</p>	<p><b>Vice President, Commercial, April 2004-present;</b> Executive Vice President, Orion Bus Industries, 1999-2004.</p>
<p><b>Shawn Koshowski</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Operations Planning, May 2006-present;</b> Vice President, Corporate Development, Tembec Inc., May 2005-Apr. 2006; Senior Vice President, High Yield Pulp, Tembec Inc., Nov. 2004-Apr. 2005; Senior Vice President, Newsprint, Tembec Inc., Sept. 2002-Oct. 2004; Vice President and General Manager, Tembec's Spruce Falls' Operation, Sept. 1999-Aug. 2002.</p>
<p><b>Martin Pochtaruk</b> Sault Ste. Marie, Ontario, Canada</p>	<p><b>Vice President, Business Development, May 2006-present;</b> Director, Operations Planning of the Company, Dec. 2004-May 2006; Supply Chain Manager, Tenaris in Canada, Oct. 2000-Oct. 2004; Business Development Manager, Tenaris in the US, July 1999-Sept. 2000.</p>

As at the date hereof, the directors and executive officers of Algoma, as a group, beneficially owned, directly and indirectly, or exercised control or direction over 1.07% of the common shares of Algoma.

### **Audit Committee**

The Audit Committee is presently comprised of Mr. Patrick J. Lavelle (Chair), Mr. Alex Davidson, Mr. Charles Masson and Mr. Francis Petro. All members of the Audit Committee are required to be independent and financially literate and at least one member of the Audit Committee is to be a "financial expert" as such term is defined in Multilateral Instrument 52-110 — *Audit Committee*. Each member of the Audit Committee is independent and financially literate within the meaning of applicable law and stock exchange listing requirements. The Board has determined that Mr. Alex Davidson is an "audit committee financial expert" as defined in the Audit Committee Charter attached to this Annual Information Form as Schedule "A".

**Relevant Education and Experience**

Each member of the Audit Committee has acquired significant financial experience and exposure to accounting and financial issues. Mr. Lavelle, the Chair of the Audit Committee, has served on a number of boards of directors of public companies where he has acted as a member and chairman of their Audit Committees. He has also held a number of senior positions in the civil service where he has held accountability for significant ministerial budgets and audits. Mr. Davidson, who the Board has determined is an audit committee financial expert, is a chartered accountant who spent many years as a partner in one of Canada's large public accounting firms. He serves on the boards of directors of other public companies and is the Chairman of the Audit Committee of UE Waterheater Income Fund. Mr. Petro is the Chief Executive Officer of Haynes International Inc., a publicly traded U.S. Company. He had held a number of senior executive positions with direct accountability for financial performance and reporting. Mr. Masson is a partner with Masson & Company, which provides restructuring and other investment banking services to a wide range of corporate clients. He also spent many years in the restructuring and investment banking practice of Solomon Brothers.

**Audit Committee Mandate**

The Audit Committee is responsible for assisting the Board in its oversight of:

- Direct communication with the external auditors and the Corporation's financial personnel;
- Oversight of management's responsibility on internal controls and disclosure;
- Ensuring that management has designated and implemented an effective system of internal control;
- Reviewing and recommending for Board approval quarterly and annual financial statements and other financial documents.

**Pre-Approval Policies and Procedures**

The Audit Committee has established a policy of pre-approving all audit services and non-audit services to be performed for the Corporation by its external auditors, and the Audit Committee shall not engage the external auditors to perform those specific non-audit services proscribed by law or regulation.

On a quarterly basis, the Audit Committee meets separately with the external auditors without management being present and meets separately with management without the external auditors being present.

**Audit Committee Charter**

The charter of the Audit Committee is attached to this Annual Information Form as Schedule "A".

**External Auditor Service Fees**

The following table details the fees paid to KPMG LLP in the past two fiscal years for various services provided to the Company:

Year ended December 31,	2006	2005 <sup>(i)</sup>
	\$	\$
Audit Fees	296,359	168,400
Audit-Related Fees	375,667	20,000
Tax Fees	105,765	53,200
Other Fees	66,755	-

<sup>(i)</sup> in addition, the Company incurred the following costs in fiscal 2005 paid to the Company's previous auditor; audit fees \$132,380, tax fees \$7,500 and other fees \$88,267.

*Audit Fees*

The aggregate fees, including expenses reimbursed, for professional services rendered for the audit of the consolidated financial statements of the Corporation and its subsidiaries, for the reviews of the Corporation's quarterly financial statements, and services that generally only the independent auditor can reasonably provide such as review of documents filed with Canadian Securities regulatory authorities.

*Audit-Related Fees*

The aggregate fees, including expenses reimbursed, for professional services rendered that reasonably relate to the performance of the audit or review of the Company's consolidated financial statements, including audit of the pension plans, internal control reviews, analysis of various accounting issues and due diligence services related to a contemplated acquisition.

*Tax Fees*

The aggregate fees, including expenses reimbursed, for tax compliance, tax advice and tax planning services rendered to the Corporation and its subsidiaries.

*Other Fees*

The aggregate fees, including expenses reimbursed, paid to the external auditors for all services other than those presented in the categories of audit fees, audit-related fees and tax fees. In 2006, these fees related to a review of the SAP implementation project.

**Market for Securities**

The common shares of Algoma are listed for trading on the Toronto Stock Exchange under the trading symbol AGA. The following table sets forth the market price range and trading volumes of the Company's common shares on the Toronto Stock Exchange for each month of 2006.

<b>Year ended December 31, 2006</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Trading Volume</b>
January	30.72	23.14	28.84	7,113,420
February	30.83	26.30	30.10	5,685,917
March	33.48	26.59	31.61	13,259,402
April	34.33	31.05	31.88	8,055,191
May	36.00	30.75	33.60	6,200,015
June	35.49	29.89	35.45	6,446,121
July	37.00	31.86	36.27	4,777,136
August	38.44	35.66	36.85	7,067,424
September	37.50	30.83	31.31	8,210,369
October	36.03	30.02	33.75	5,520,927
November	35.17	30.60	34.85	6,366,189
December	35.75	31.40	32.90	5,306,933

**Transfer Agent and Registrar**

Algoma's transfer agent and registrar for its common shares is Computershare Investor Services Inc., located at 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1.

**Interests of Experts**

The auditors of the Company are KPMG LLP, Chartered Accountants, Toronto, Ontario. KPMG LLP have advised that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

**Additional Information**

Additional information relating to Algoma may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under equity compensation plans is contained in the Management Proxy Circular dated February 20, 2006. Additional financial information is provided in the 2006 Consolidated Financial Statements and Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2006.

**SCHEDULE A  
AUDIT COMMITTEE CHARTER**

**MAY 19, 2004**

**ALGOMA STEEL INC.**

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

These terms of reference of the Audit Committee (the "Audit Committee" or "Committee") of the Board of Directors of the Corporation have been adopted in recognition of existing and proposed requirements of securities regulatory authorities as well as the corporate governance listing requirements and corporate governance guidelines of the Toronto Stock Exchange. These terms of reference will be further reviewed as such requirements and guidelines may change from time to time. As well, the power and authority of the Audit Committee are subject to the provisions of the *Business Corporations Act* (Ontario), being the statute which governs the Corporation.

The Corporation's management is responsible for preparing the Corporation's financial statements and the external auditors are responsible for auditing those statements. The Audit Committee is responsible for overseeing the conduct of those activities by the Corporation's management and the external auditors. The Corporation's external auditors are ultimately accountable to the board of directors and the Audit Committee as representatives of the Corporation's shareholders.

It is recognized that, in fulfilling their responsibilities, members of the Audit Committee are not full-time employees of the Corporation and are not, and do not represent themselves to be, accountants or auditors by profession or experts in the fields of accounting or auditing. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to determine that the Corporation's financial statements are complete and accurate. Each member of the Audit Committee shall be entitled to rely on: (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information; and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).

**STATEMENT OF PURPOSE**

The Audit Committee is responsible to the Board of Directors of the Corporation in contributing to the effective stewardship of the Corporation. The purpose of the Audit Committee is to assist board oversight of:

- (i) the integrity of the Corporation's financial statements;
- (ii) the Corporation's compliance with applicable legal and regulatory requirements;
- (iii) the qualifications, independence and appointment of the external auditors; and
- (iv) the performance of the Corporation's internal audit function and the external auditors.

In particular, the Audit Committee will undertake the following:

- (a) Financial Statements
  - reviewing all of the Corporation's critical accounting policies and all major issues regarding accounting principles and financial statement presentation (including all significant changes in the Corporation's selection or application of accounting principles);

- reviewing major changes to the Corporation's auditing and accounting policies and practices as suggested by the external auditors, management or the internal auditors;
- reviewing with the external auditors, the internal auditors and management the extent to which changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented;
- reviewing the procedures used in their preparation, and ensuring that, at all times, management is aware of and acknowledges its responsibility for the integrity and accuracy of the financial statements;
- reviewing and discussing with management and the external auditors, the Corporation's annual consolidated financial statements and any interim unaudited consolidated financial statements, and discuss with the external auditors the matters required to be discussed by generally accepted auditing standards in Canada, as may be modified or supplemented, including the Corporation's disclosures under "Management's Discussion and Analysis", and for such purpose, review an annual report by the external auditors describing: (i) all critical accounting policies and practices used by the Corporation; (ii) all material alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management of the Corporation, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the external auditors; and (iii) other material written communications between the external auditors and management, and discuss such annual report with the external auditors;
- reviewing drafts of quarterly and annual financial statements prior to release of earnings information as well as drafts of any related press releases;
- reviewing all other financial statements requiring approval by the Board prior to public release, including financial statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities;
- reviewing the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements;
- reviewing issues related to liquidity in capital resources and contingencies that could affect liquidity;
- reviewing all plans for treasury operations such as financial derivatives and hedging activities;
- reviewing all material off balance sheet transactions;
- reviewing all material transactions with related parties;
- reviewing all material contingent liabilities including matters such as guarantees, contractual indemnities and potential tax assessments;
- reviewing the status of litigation, arbitration proceedings and other similar matters that could have a material effect, currently or in the future, on the financial position or the operations of the Corporation including the required disclosure, if any, in the financial statements;
- reporting to the Board on the Corporation's compliance with generally accepted accounting principles (GAAP);

- reviewing the presentation and impact of all other significant risks and uncertainties, as well as the strategies for mitigation that are in place or required, and key estimates and judgements that may be material to the financial results, and reporting to the Board thereon;
  - reviewing significant issues arising from the financial statements of subsidiary companies, if any;
  - following completion of the annual audit, review with each of management, the external auditors and the internal auditors any significant issues, concerns or difficulties encountered during the course of the audit including:
    - (i) restrictions on the scope of work or on access to required or requested information;
    - (ii) issues or concerns that arose during the course of the audit concerning the Corporation's internal accounting controls, or the fair presentation, completeness or accuracy of the financial statements; and
    - (iii) analyses prepared by management or the auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements (including analysis of the effects of alternative treatments under generally accepted accounting principles);
  - receive and review reports from other committees of the board of directors with respect to matters that could affect the audit or results of operations;
  - resolve disagreements between management and the external auditors regarding financial reporting; and
  - discuss principles to be applied with regard to the disclosure of financial and related information including in respect of earnings, press releases, releases of pro forma or adjusted non-GAAP information and financial information and earnings guidance provided to analysts and rating agencies.
- (b) External Audit
- requiring the external auditors to report directly to the Audit Committee;
  - be directly responsible for the selection, appointment, compensation, retention, termination and oversight of the work of the Corporation's external auditors and, in such regard, recommend the external auditors for approval by the shareholders;
  - reviewing the audit plan with the external auditors and with management prior to the commencement of the audit;
  - ensuring that no restrictions are placed on the scope and nature of the external auditors' planned audit, and that it is to be performed independently of management;
  - reviewing and recommending to the Board regarding the nomination, remuneration, and terms of engagement of the Corporation's external auditors;
  - pre-approving all engagements for non-audit services that management proposes be provided by the external auditor or its affiliates, considering the impact on the external auditor's independence, and reporting to the Governance Committee thereon;

- establishing which non-audit services the external auditors shall be prohibited from providing;
  - in consultation with the external auditors and the internal auditors, review the integrity of the Corporation's financial reporting process, both internal and external, and any major issues as to the adequacy of the internal controls and any special audit steps adopted in light of material control deficiencies;
  - discussing with the external auditors the quality, and not just the acceptability of the Corporation's accounting principles;
  - regularly reviewing with the external auditors audit problems or difficulties and management's response;
  - establishing a policy for the hiring of employees or former employees of external auditors, which should take into account the pressures that may exist for employees of the auditors consciously or subconsciously seeking employment with the Corporation;
  - considering, assessing and reporting to the board of directors with regard to the independence and performance of the external auditors and their lead partner and, for such purpose:
    - (i) review the formal written statement and letter to be periodically submitted as required by Canadian generally accepted auditing standards, as the same may be modified or supplemented from time to time, delineating all relationships between the external auditors and the Corporation, its affiliates and associates;
    - (ii) actively engage in a dialogue with the external auditors with respect to any disclosed relationships or services and their impact on the objectivity or independence of the external auditors;
    - (iii) request and review a report by the external auditors, to be submitted at least annually, regarding the external audit firm's internal quality control procedures, any material issues raised by the most recent internal quality review or peer review of the external audit firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external audit firm and any steps taken to deal with such issues; and
    - (iv) conduct an evaluation (taking into account the opinions of management and the internal auditors) of the external auditor's qualifications, performance and independence (including an evaluation of the lead partner) and present to the board of directors the Committee's conclusion in such regard; and
  - consider whether, in order to assure continuing auditor independence, there should be a regular rotation of the auditing firm retained to act as the Corporation's external auditors.
- (c) Internal Control
- periodically review reports on the Corporation's information technology systems that support the financial reporting process;
  - reviewing the adequacy of the Corporation's systems of internal control over the safeguarding of assets and information and reviewing management letters that may be issued from time to time by the external auditors;

- evaluating, following up on, and reporting to the Board on management's responses to management letters as issued by the external auditors;
  - reviewing the activities, organization and qualifications of the internal auditors and discuss with the external auditors the responsibilities, budget and staffing of the internal audit function;
  - receiving and approving the annual statements of travel and other reimbursable expenses for the Chairman and President;
  - receiving and approving quarterly a composite report of travel and other reimbursable expenses by senior management, including the Chairman and President; and
  - reviewing a summary of the significant reports to management prepared by the internal auditors and management's responses.
- (d) Pensions
- reviewing with management and reporting to the Board on the Corporation's investment policy for its pension funds;
  - reviewing with management and reporting to the Board on the selection and performance of managers in respect of the investment of pension funds;
  - the commissioning and review of any asset/liability studies or other consulting work in respect of the Corporation's pension funds and reporting to the Board thereon;
  - reviewing and approving of the funds' actuarial reports and reporting to the Board thereon;
  - reviewing, and reporting to the Board regarding the selection, remuneration and terms of engagement of the Corporation's Actuaries;
  - reviewing and reporting to the Board with respect to any significant public filings in respect of the Corporation's pension funds;
  - ensuring that required contributions to maintain the plans in good standing are being made; and
  - reviewing the annual financial statements of pension plans with management and the external auditors and reporting to the Board thereon.
- (e) Legal and Regulatory Requirements
- receiving and reviewing timely analyses by management of significant issues relating to the public disclosure and reporting;
  - reviewing with the Corporation's General Counsel legal compliance matters, significant litigation and other legal matters that could have a significant impact on the Corporation's financial statements; and
  - reviewing, prior to finalization, periodic public disclosure documents containing financial information.

- (f) Other
- receiving and reviewing an annual report on the adequacy of insurance coverages, and reporting to the Board thereon;
  - receiving and reviewing all proxy and related material in respect of meetings of holders of the Corporation's securities;
  - reviewing procedures in place to monitor compliance with the Corporation's code of business conduct, including insider trading and disclosure;
  - receiving and reviewing any regular reports required by lenders or other authorities on the continued solvency of the Corporation;
  - performing other tasks as may, from time to time, be assigned by the Board;
  - reviewing and reassessing the adequacy of the Audit Committee's terms of reference on an annual basis;
  - reviewing the terms of reference and procedures of and periodic reports from any audit committees of subsidiary companies;
  - discussing guidelines and policies to govern the process by which risk management and risk assessment have been and are handled, even if the primary responsibility for risk management and risk assessment is assigned to another body, including a discussion of the Corporation's major financial risk exposures and the steps management have been taken to monitor and control such exposures;
  - establishing procedures and policies for the following:
    - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
    - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
  - preparing and reviewing with the board of directors an annual performance evaluation of the audit committee;
  - reviewing independent financial analysts' commentary concerning the Corporation and its financial reporting; and
  - reporting regularly to the board of directors, including with regard to matters such as the quality or integrity of the Corporation's financial statements, compliance with legal or regulatory requirements, the performance of the internal audit function and their performance and independence of the independent auditors.

## MEMBERSHIP

### 1. Number and Qualification

The Board will appoint not fewer than three nor more than six members to the Committee, all of whom must be directors of the Corporation. The members of the Audit Committee shall be selected based upon the following:

- (i) Compliance with applicable securities legislation respecting independence;
- (ii) Each member of the Committee must be financially literate, as defined in applicable securities legislation, or become financially literate within a reasonable period of time after his or her appointment to the Committee;
- (iii) In addition to being a member of the Committee and the Audit Committee of any affiliate of the Corporation, no member of the Audit Committee may be on the audit committee of more than two additional public companies unless specifically approved by the Board; and
- (iv) The Board will determine whether at least one member is a financial expert within the meaning of applicable law or regulation and will make appropriate disclosure.

#### *Independent Director*

In order to be considered to be an independent director for the purposes of membership on the Audit Committee, a director must have been determined by the Board to be independent and unrelated as a member of the Board in accordance with all applicable legal and regulatory requirements.

### **2. Chair**

The Board will appoint the chairman of the Committee annually, upon the recommendation of the Governance Committee, from among the members of the Committee. If, in any year, the Board does not make an appointment of the chairman, the incumbent chairman will continue in office until that chairman's successor is appointed.

### **3. Removal and Vacancies**

Any member of the Committee may be removed and replaced at any time by the Board and will automatically cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies in the Committee by election from among the members of the Board upon the recommendation of the Governance Committee. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office.

### **4. Tenure**

Subject to paragraph 3 above, each member of the Committee will hold office until the next Annual Meeting of Shareholders of the Corporation after his or her election.

## **MEETINGS**

### **1. Notice of Meetings**

- (a) The Chairman of the Committee may call meetings of the Committee periodically and will do so at the request of any two members of the Committee.
- (b) The Committee may require the attendance of the Auditors and/or Actuaries at any meeting of the Committee.
- (c) The Committee will have the right to invite any person to attend meetings of the Committee, and will have access to all Corporate materials necessary to discharge its responsibilities.
- (d) Notice of the time and place of each meeting of the Committee will be given to each member by telephone not less than 48 hours before the time of the meeting or by written notice not less than

four days before the day of the meeting, and, subject to the requirements of any applicable law, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the Committee may be held at any time without notice if all the members have waived or are deemed to have waived notice of the meeting.

**2. Times and Places of Meetings**

The Committee will meet as many times as necessary to carry out its responsibilities but, in no event, will the Committee meet less than five times during each fiscal year. The meetings shall be at times and places to be determined by the Chairman, with due consideration to the effectiveness of meeting in conjunction with meetings of the full Board.

**3. Agenda**

The Chairman of the Committee will establish the agenda of the meetings and, where possible, circulate materials in advance to ensure sufficient time for review prior to the meeting.

**4. Quorum**

A quorum at any meeting will be a simple majority provided that, if the number of members of the Committee is an even number, one half of the number plus one shall constitute a quorum.

**5. Procedure**

The procedure at meetings will be determined by the Committee unless otherwise determined by the by-laws of the Corporation or by a resolution of the Board of the Corporation.

**6. Secretary**

The Corporation's Corporate Secretary will act as secretary at the meetings and will keep minutes of all meetings.

**7. Minutes of Meetings**

The Committee will keep regular minutes of its proceedings and will report to the Board at each meeting of the Board. Minutes will be circulated to all directors on a timely basis.

**8. Transaction of Business**

The powers of the Committee may be exercised at a meeting where quorum is present or by resolution in writing signed by all members of the Committee entitled to vote on that resolution at a meeting of the Committee.

**9. Absence of Chair**

In the absence of the Chairman of the Committee at a meeting, the Committee may elect one of its members present to act as Chairman of that meeting.

**10. Exercise of Power Between Meetings**

Between meetings, the Chairman of the Committee, or any member of the Committee designated for the purpose by the Chairman, may exercise any power delegated by the Committee.

**11. Remuneration**

The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

**RESOURCES AND AUTHORITY**

The Committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to engage and establish the compensation of, at the expense of the Corporation, outside advisors including experts in particular areas of relevance to the Committee as well as legal counsel and other experts or consultants as the Committee determines necessary to carry out its duties, without seeking approval of the Board or management.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and, for such purpose, may have direct access to external advisors previously retained by the Corporation as well as any one within the Corporation.

The Committee may in its discretion, by resolution, delegate all or any portion of its duties and responsibilities described in these terms of reference to the Chair or Vice-Chair of the Committee or to a sub-committee consisting of not less than two members of the Committee.