

Algoma Steel Inc.**Consolidated Statements of Income and Retained Earnings**

Expressed in millions of Canadian dollars, except per share amounts

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

See accompanying notes.

Algoma Steel Inc.

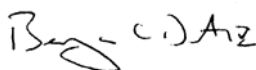
Consolidated Balance Sheets

Expressed in millions of Canadian dollars

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

See accompanying notes.

On behalf of the Board:



Benjamin Duster
Director



Patrick Lavelle
Director

Algora Steel Inc.

Consolidated Statements of Cash Flows

Expressed in millions of Canadian dollars

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

See accompanying notes.