

*These materials are important and require your immediate attention. They require Algoma Steel Inc. Shareholders to make important decisions. If you are in doubt as to how to make such decisions, please contact your financial, legal or other professional advisors. If you have any questions or require more information with regard to voting your Algoma Steel Inc. shares, please contact Georgeson Shareholder Communications Canada Inc. toll free at 1-866-532-9251.*



**NOTICE OF MEETING AND  
MANAGEMENT PROXY CIRCULAR**

**FOR THE MARCH 22, 2006  
SPECIAL MEETING OF SHAREHOLDERS**

**This Management Proxy Circular solicits BLUE Proxies  
February 20, 2006**

**Consider the record. Consider the risks.  
REJECT  
the Paulson Proposal.**

**Your Board of Directors recommends that you act to preserve the long-term value of your investment in Algoma by signing, dating and returning the enclosed BLUE form of proxy WITH THE ALGOMA LOGO in accordance with the instructions on the BLUE form.**

If you have any questions or need assistance in completing  
or returning the enclosed **BLUE** proxy, please call:

GEORGESON SHAREHOLDER

**TOLL FREE: 1-866-532-9251**

## **PLEASE READ CAREFULLY:**

This Management Proxy Circular is provided in connection with the Special Meeting of Shareholders that has been called by Algoma Steel Inc., in response to a requisition received from Paulson.

There are a number of important matters that each shareholder should carefully consider in connection with the Meeting:

The Board of Directors of Algoma Steel, unanimously recommends shareholders vote:

<b>AGAINST</b>	<b>the Removal Resolution</b>
<b>AGAINST</b>	<b>the Board Size Resolution</b>
<b>WITHHELD</b>	<b>from voting in respect of the Paulson's Nominees Resolution</b>
<b>AGAINST</b>	<b>the Notes Resolution</b>
<b>AGAINST</b>	<b>the Restructuring Resolution.</b>

Your vote is extremely important. Please vote your shares.

You should use the **BLUE** form of proxy bearing the Algoma Logo for this Meeting.

YOU MAY ALSO RECEIVE FORMS OF PROXIES AND OTHER MATERIALS FROM PAULSON.  
PLEASE DISCARD SUCH PROXIES AND USE ONLY THE  
ACCOMPANYING **BLUE** PROXY BEARING THE ALGOMA LOGO.

## **Notice of Shareholders in the United States**

This Circular 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 Circular have been prepared in accordance with Canadian general accepted accounting principles, which differ in certain respect from generally accepted accounting principles in the United States, and accordingly, may not be comparable to financial statements and financial information of the 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 Corporation is incorporated under the laws of Ontario, that majority of its officers and directors are residents of Canada, and that substantially all of the assets of the Corporation are located outside of the United States.

## **Forward-Looking Statements**

The discussion of the Corporation's business in this Circular may include forward-looking information with respect to the Corporation, 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, 2005.

In addition to the factors noted in the Management's Discussion and Analysis for the fiscal year ended December 31, 2005, 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 Circular has been reviewed by the Corporation's Board of Directors and contains information that is current as of February 20, 2006. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Additional information about Algoma is available in the Corporation's Annual Information Form which can be accessed from SEDAR at [www.sedar.com](http://www.sedar.com).

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the "Meeting") of holders of the common shares of **ALGOMA STEEL INC.** ("Algoma" or the "Corporation") will be held at Hilton Toronto Airport Hotel, Vista Salon (Main Level), 5875 Airport Road, Mississauga, Ontario on Wednesday, March 22, 2006 at 10:00 a.m. (Toronto time) for the following purposes:

1. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution to remove from office the majority of Algoma's current directors, being Messrs. Steven Bowsher, Alexander Davidson, Benjamin Duster, Patrick Lavelle, James Lawson, Charles Masson and Francis Petro, as directors of the Corporation (the "Removal Resolution");
2. to consider, and if deemed advisable, pass, with or without variation, a special resolution to amend the Corporation's Articles to provide that there be nine directors (the "Board Size Resolution");
3. if the resolution in paragraph 1 is passed, to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution to fill the vacancies created by the foregoing removal of directors of the Corporation by the election of the following five nominees proposed by Paulson & Co. ("Paulson" or the "Requisitioning Shareholder") to hold office until the close of the first annual meeting of shareholders following their election: Messrs. Trevor Eyton, Farokh Hakimi, Nicholas Tolerico, Michael Waldorf and John Hritz (the "Paulson's Nominees Resolution");
4. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution directing the Corporation's board of directors to consider, and if thought appropriate, to issue \$200 million of new notes not subject to mandatory payment in respect of the outstanding principal amount until a date no earlier than 2010 (the "Notes Resolution");
5. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution directing the Corporation's board of directors to consider and, if thought appropriate, to place before the Corporation's common shareholders for their approval a transaction to distribute cash retained by the Corporation to common shareholders on a tax efficient basis whereby common shareholders may elect to receive, in each case subject to *pro rationing*, (i) cash at a price per common share representing a premium to the market price for the common shares, or (ii) common shares in the Corporation or its successor, provided that such cash component shall not be less than \$400 million or the maximum amount permitted by law if less than \$400 million (the "Restructuring Resolution"); and
6. to transact such other business as may properly come before the Meeting or any adjournment thereof.

Items 1 through 5 are included pursuant to the request of the Requisitioning Shareholder. The accompanying Management Information Circular provides additional information relating to the matters to be dealt with at the Meeting and is deemed to form part of this Notice.

If you are a *registered shareholder* and are unable to attend the Meeting in person, please exercise your right to vote by signing, dating and returning the enclosed form of **BLUE** proxy **WITH THE ALGOMA LOGO** in the prepaid envelope provided. To be effective, **BLUE** proxies must be received no later than 10:00 a.m. (Toronto time) on Monday, March 20, 2006 or, in the case of any adjournment or postponement of the meeting, no later than 48 hours before the time of such reconvened meeting, by Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1. **Failure to properly complete or deposit a proxy may result in its invalidation. The time limit for deposit of proxies may be waived by the Corporation's board of directors at its discretion without notice.**

If you are a *non-registered shareholder* and receive these materials through your broker or another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or such other intermediary.

DATED this 20<sup>th</sup> day of February, 2006.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "P. Finley". The signature is written in a cursive, somewhat stylized font.

PAUL C. FINLEY  
Vice President — Business Development and Corporate Secretary

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## SOLICITATION OF PROXIES

This Management Information Circular accompanies the Notice of special meeting (the "Meeting") of the holders ("Shareholders") of common shares ("Common Shares") of Algoma Steel Inc., ("Algoma" or the "Corporation") to be held on March 22, 2006 at 10:00 a.m. at Hilton Toronto Airport Hotel, Vista Salon (Main Level), 5875 Airport Road, Mississauga, Ontario and **is furnished in connection with the solicitation by the management of the Corporation of BLUE proxies for use at the Meeting.** The solicitation will be primarily by mail, telephone, email and facsimile. **BLUE** proxies may also be solicited personally, by telephone, email or facsimile by regular employees of the Corporation, at nominal cost, or by agents of the Corporation hired for that purpose. Georgeson Shareholder Communications Canada Inc. will be acting as soliciting agent for the Corporation to solicit proxies for the Meeting, for an approximate fee of US\$100,000. The costs of such solicitation will be borne by the Corporation. This Management Information Circular is dated February 20, 2006 and the information contained herein is given as of February 20, 2006 except where otherwise noted.

### REGISTERED HOLDERS

If you are a registered holder of Common Shares of the Corporation, you may vote in person at the meeting or you may appoint another person to represent you as proxyholder and vote your Common Shares at the Meeting. If you wish to attend the meeting, do not complete or return the enclosed **BLUE** form of proxy because you will vote in person at the meeting. Please register with the transfer agent, Computershare Investor Services Inc., when you arrive at the meeting.

#### Appointment of Proxyholders

The persons named in the enclosed **BLUE** form of proxy are officers and/or directors of the Corporation. **A Shareholder has the right to appoint a person, who need not be a Shareholder, other than the persons designated in the enclosed BLUE form of proxy, to attend and act on behalf of the Shareholder at the Meeting.** To exercise this right, a shareholder may either insert such other person's name in the blank space provided on the enclosed **BLUE** form of proxy or complete another appropriate **BLUE** form of proxy.

To be valid, a **BLUE** proxy must be signed by the shareholder or the shareholder's attorney authorized in writing or, if the shareholder is a corporation, by a duly authorized officer or attorney. The **BLUE** proxy, to be acted upon, must be deposited with the Corporation, c/o its agent, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, by 10:00 a.m. (Toronto time) on Monday, March 20, 2006 or, in the case of any adjournment or postponement of the meeting, no later than 48 hours before the time of such reconvened meeting. **Failure to properly complete or deposit a proxy may result in its invalidation. The time limit for the deposit of proxies may be waived by the Board at its discretion without notice.**

#### Voting by Proxy

Common Shares represented by properly executed **BLUE** proxies in the enclosed form will be voted for or against or withheld from voting in accordance with the instructions of the shareholder on the **BLUE** proxy on any ballot that may be called for. **In the absence of any instructions on the BLUE proxy, such Common Shares will be:**

1. **voted AGAINST the Removal Resolution;**
2. **voted AGAINST the Board Size Resolution;**
3. **WITHHELD from voting in respect of the Paulson's Nominees Resolution;**
4. **voted AGAINST the Notes Resolution; and**
5. **voted AGAINST the Restructuring Resolution.**

The enclosed **BLUE** form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to the matters identified in the Notice of Meeting and with respect to any other matter which may properly come before the Meeting.

## Revocation of Proxy

A Shareholder who has given a **BLUE** proxy may revoke it by an instrument in writing, executed by the Shareholder or by the Shareholder's attorney authorized in writing and deposited at the registered office of the Corporation, 105 West Street, Sault Ste. Marie, Ontario, P6A 7B4, prior to the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting at any time before it is exercised in respect of any particular matter or in any other manner permitted by law, including attending the Meeting in person.

## NON-REGISTERED HOLDERS

Only registered holders of Common Shares of the Corporation, or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. However, in many cases, Common Shares of the Corporation beneficially owned by a holder (a "Non-Registered Holder") are registered either:

- (a) in the name of an intermediary that the Non-Registered Holder deals with in respect of the shares (intermediaries include banks, trust companies, securities dealers or brokers, and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or
- (b) in the name of a depository (such as The Canadian Depository for Securities Limited or "CDS").

In accordance with Canadian securities law, the Corporation has distributed copies of the notice of meeting, this management information circular and the **BLUE** form of proxy (collectively, the "Meeting Materials") to CDS and intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Typically, intermediaries will use a service company to forward the meeting materials to Non-Registered Holders.

Non-Registered Holders who have declined to receive Meeting Materials will receive either a voting instruction form or, less frequently, a form of proxy. The purpose of these forms is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Non-Registered Holders should follow the procedures set out below, depending on which type of form they receive.

- A. **Voting Instruction Form.** In most cases, a Non-Registered Holder will receive, as part of the meeting materials, a voting instruction form. If the Non-Registered Holder does not wish to attend and vote at the meeting in person (or have another person attend and vote on the Holder's behalf), the voting instruction form should be completed, signed and returned in accordance with the directions on the form. If a Non-Registered Holder wishes to attend and vote at the meeting in person (or have another person attend and vote on the Holder's behalf), the Non-Registered Holder must complete, sign and return the voting instruction form in accordance with the directions provided.

or

- B. **Form of Proxy.** Less frequently, a Non-Registered Holder will receive, as part of the meeting materials, a **BLUE** form of proxy that has already been signed by the intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. If the Non-Registered Holder does not wish to attend and vote at the meeting in person (or have another person attend and vote on the Non-Registered Holder's behalf), the Non-Registered Holder should complete the **BLUE** form of proxy and deposit it with the Corporation, c/o its agent, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, as described above. If a Non-Registered Holder wishes to attend and vote at the meeting in person (or have another person attend and vote on the Holder's behalf), the Non-Registered Holder must strike out the names of the persons named in the **BLUE** proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided.

**Non-Registered Holders should follow the instructions on the **BLUE** forms they receive and contact their broker or intermediaries promptly if they need assistance.**

## **BACKGROUND TO THE MEETING**

This Meeting has been requisitioned by a dissident shareholder based in New York, Paulson & Co. Inc. (the "Requisitioning Shareholder" or "Paulson"). As of November 2, 2005, Paulson held approximately 19.2% of the outstanding Common Shares of the Corporation and is seeking to remove all of the independent members on Algoma's Board of Directors (the "Board") elected by Algoma's Shareholders and replace them with Paulson's own nominees.

### **Algoma's Recent History and the Board's Record**

Algoma is an integrated steel producer based in Sault Ste. Marie, Ontario. Revenues are derived primarily from the manufacture and sale of rolled steel products including hot and cold rolled sheet and plate. In the past fifteen years Algoma has undergone two insolvency proceedings, the most recent of which was completed on January 29, 2002. Since that restructuring, the Board has protected and promoted the best interests of Algoma and its Shareholders under challenging business conditions in a volatile and uncertain steel industry. The Board has worked consistently to maximize Shareholder value, including considering strategic opportunities such as acquisitions or the sale of Algoma.

In late 2004, Algoma announced that it had entered into a process regarding a potential acquisition of Stelco Inc., a large Canadian diversified steel producer based in Hamilton, Ontario. The Board considered submitting an offer for Stelco. Algoma's due diligence at that time confirmed that there were significant potential benefits to a combination of Algoma and Stelco. However, given the risks and obligations associated with such an acquisition, the Board concluded that proceeding with the transaction was not in the best interests of Shareholders.

In February 2005, Algoma withdrew from the Stelco review process. Upon withdrawal Algoma affirmed that it was mindful of the potential for value creation through either acquisitions or industry consolidation and announced that the Board was continuing to evaluate all strategic options for value creation on behalf of Shareholders.

In late 2004, the Board established a Special Committee of directors, composed of Benjamin Duster (as Chair), Patrick Lavelle and Jim Lawson, to oversee the Stelco review process and a formal strategic alternatives review. Messrs. Duster, Lavelle and Lawson are all independent directors. BMO Nesbitt Burns Inc. acted as financial advisor to the Special Committee in support of the strategic alternatives review process. The review involved the evaluation and consideration of a full range of strategic alternatives, including reinvestment, expansion opportunities through acquisition, joint venture or other business arrangement, the sale or merging of the business, and other alternatives potentially in the best interest of Shareholders, including the maintenance of the status quo. As part of this process, Algoma initiated discussions with, and provided information to, a number of potential purchasers, both strategic and financial, to gauge interest in a purchase of Algoma, some of whom signed confidentiality agreements with and performed due diligence on the Corporation using an electronic data room set up by the Corporation.

In May 2005, Algoma announced that the Board had been active in terms of evaluating strategic alternatives available to Algoma and sought to pursue the path that would create the highest value for Shareholders.

On August 3, 2005, the Corporation announced that, based on its review of strategic alternatives, it was discontinuing the formal process of actively pursuing a sale of Algoma. Algoma's senior management and the Special Committee had invested a significant amount of time to determine if a sale of the Corporation was the most effective way to maximize Shareholder value. The Board concluded that, due to a variety of factors, a sale was not appropriate at that time.

At the same time, Algoma also announced its declaration of a special dividend of \$6.00 per share, and the initiation of a normal course issuer bid for up to 3.3 million Common Shares. The aggregate distribution of the special dividend and normal course bid approximated the maximum amount permitted under the terms of the indenture for Algoma's then outstanding 11% Notes.

## Shareholder Value

**Algoma's track record with respect to share price, shareholder returns, net income and net debt has been excellent since the restructuring in 2002. Algoma's share price has increased over 902% between February 21, 2002 (the first day of trading following the restructuring) and February 20, 2006, with an annualized return to Shareholders in that period of 89.8% (including the special dividend).**

## September 2005 Meeting with Paulson

On September 21, 2005, during a trip to meet with investors in New York, Algoma's President and Chief Executive Officer, Mr. Denis Turcotte, met with John Paulson, the managing partner of Paulson. During the meeting, Mr. Paulson was highly critical of Algoma's \$6.00 per share special dividend. He made reference to an alternative structure that he said would have avoided negative tax consequences for Paulson.

Mr. Turcotte responded by stating that the income tax implications of the special dividend had been thoroughly considered by management and the Board in advance of its declaration, and that management and the Board believed that the special dividend was in the best interest of Shareholders as a whole. Mr. Turcotte reiterated that the Board was open to and would seriously consider any ideas from Paulson or other Shareholders to increase Algoma's value.

## Letter from Paulson

On October 21, 2005, the Board received a letter from Paulson including a corporate reorganization proposal which Paulson said would provide "substantial benefits" to Shareholders. The letter set out a proposal consisting of two steps: (a) issue \$200 million of new ten year notes; and (b) distributing at least \$400 million to Shareholders through an exchange of 40% of Algoma's equity for \$26 cash per share, and 60% of the equity for shares in a new company that would continue the business of Algoma (the "Paulson Proposal"). The details of the Paulson Proposal are set out in the "Particulars of Matters to be Acted Upon at the Meeting — The Paulson Proposal" section at page 7. According to the Paulson letter, distributing cash to Shareholders in this manner would be tax efficient and without withholding tax for non-resident Shareholders.

In the October 21<sup>st</sup> letter, Paulson stated that if the Board was unwilling to implement the Paulson Proposal or to step aside, Paulson was prepared to requisition a special meeting of the Shareholders with the purpose of electing a new slate of directors.

Mr. Turcotte contacted Mr. Paulson on October 21, 2005 at Mr. Paulson's request. During the course of discussion, Mr. Turcotte inquired whether the deadline imposed in the October 21<sup>st</sup> letter, being October 25, 2005, could be extended to November 2, 2005 in order to allow the Board to consider the Paulson Proposal at a Board meeting previously scheduled for November 2, 2005. Mr. Paulson refused, and advised that he required a quick response from the Board and would not defer action waiting for an answer.

The Special Committee and the Board met to consider Paulson's letter and the Paulson Proposal. The Board received advice from its financial advisor, BMO Nesbitt Burns Inc., as to the impact of the Paulson Proposal on Algoma's capital structure and financial flexibility. The Board considered Algoma management's views on the near and medium term factors which may impact the financial condition of the Corporation. The Board received advice from Algoma's outside counsel, Torys LLP, as to its legal obligations in the circumstances.

On October 25, 2005, Algoma announced that it had received and rejected the Paulson Proposal. In rejecting the Paulson Proposal, Algoma noted that it had already distributed a special dividend and made a normal course issuer bid which together amounted to a potential distribution in excess of \$300 million to Shareholders. The Corporation announced that the Board would continue to consider future distributions of cash to Shareholders, provided the cash distributions are, in the Board's view, consistent with Algoma's other needs. The Corporation noted that at that time the steel industry was entering a period of uncertainty with respect to the cost of raw materials and the pricing of steel products and that the Board believed it was appropriate in such an environment to maintain a significant level of liquidity, which would be compromised

under the Paulson Proposal. The Board indicated that it remained open to additional future distributions of cash to Shareholders and to reconfiguring Algoma's balance sheet over time, but not an immediate substantial reduction in liquidity given the uncertain business environment.

On October 26, 2005, Paulson issued a press release announcing that if the Board did not implement its demands, Paulson would requisition a Shareholder meeting for the purpose of replacing the Board and asking a new board to consider Paulson's restructuring proposal. At a meeting on October 31, 2005, the Board had a further discussion regarding the Paulson Proposal, with input from its co-financial advisors, BMO Nesbitt Burns Inc. and Genuity Capital Markets and the Corporation's outside legal counsel, Torys LLP.

### **Paulson Requisitions Shareholders Meeting**

On November 2, 2005, the Corporation received from Paulson a requisition for a special meeting of Shareholders.

On November 2, 2005, the Corporation released its results for the third quarter of 2005 and, in conjunction with that release, issued an irrevocable notice of redemption for all of its US\$125 million 11% Notes due December 31, 2009. The redemption occurred on January 3, 2006. The redemption eliminated an annual interest expense of US\$13.75 million. In addition, as a result of the uncertainty surrounding the issues with Paulson and the ongoing discussions with third parties concerning strategic alternatives, the Board in mid-October suspended purchases under the Corporation's normal course issuer bid.

### **Board Calls Meeting for March 22, 2006; Algoma Submits Application for Advance Tax Ruling on the Paulson Proposal**

Algoma received advice from its outside counsel, Torys LLP, that given the novel nature of the tax restructuring proposed by Paulson, it would be appropriate and prudent to seek an advance income tax ruling from the Canada Revenue Agency ("CRA") as to the tax consequences to Algoma and its Shareholders of the Paulson Proposal. In particular, if the Paulson Proposal was implemented and the Canadian tax authorities were later to determine that a portion of the distributions to non-resident Shareholders should have been withheld, Algoma would be liable to pay the withholding tax, together with penalties and interest, even though the cash had already been paid to non-resident Shareholders. The Board was advised by Torys LLP that obtaining an advance tax ruling would take approximately three months.

The Board determined that, in order for Shareholders to have full information in their consideration of the issues before them in the Meeting, the Shareholders should have greater clarity on the tax consequences of the Paulson Proposal. Torys LLP prepared a draft application for an advance income tax ruling on the Paulson Proposal, and sent the draft application to Paulson's Canadian counsel, Bennett Jones LLP, for comments. After initially indicating it would review the draft application, Bennett Jones LLP subsequently advised that it would not do so.

On November 21, 2005, the Board called the special meeting of the Shareholders for March 22, 2006. The March 22, 2006 date was selected to give sufficient time to receive the CRA's position on the ruling application.

On December 5, 2005, Torys LLP submitted the ruling application in respect of the Paulson Proposal to the Rulings Directorate of the CRA. The ruling application was prepared in accordance with the specific guidelines published by the CRA. It described the transaction steps that would be undertaken to effect the Paulson Proposal and provided submissions detailing why the CRA should interpret and apply the Canadian income tax law in a manner that would result in the requested ruling being issued by the CRA and would thereby support the tax efficiency claimed by Paulson of its proposal. Subsequent to its receipt of the ruling request, the CRA asked for clarification on a number of matters as well as for supplemental submissions on specific points of law. Algoma provided complete, detailed responses to the CRA on all issues in a timely manner, all with a view to obtaining the rulings requested.

## **Paulson Challenges the Date of the Meeting**

On January 5, 2006, Paulson brought an action before the Ontario Superior Court of Justice seeking an order that the Board: (a) did not properly “call” the Meeting, so that Paulson could call the Meeting, or, in the alternative, (b) the March 22, 2006 meeting date was unreasonably delayed, and the Meeting should be held on February 22, 2006.

On January 9, 2006, Mr. Justice Cumming of the Ontario Court ruled in favour of Algoma. In the reasons for his decisions, Mr. Justice Cummings said that the Board properly called the Meeting for March 22, 2006; and choosing that date was a good faith business judgment falling within the range of reasonableness, given that an advance tax ruling was reasonably forecasted to take three months and that the tax issues relating to the Paulson Proposal were acknowledged by all parties to be a prime consideration for Shareholders.

## **CRA Advises that in its View Algoma Must Withhold Tax in the Paulson Proposal**

The CRA advised Algoma that in the course of considering the ruling application and the application of the “general anti-avoidance rule” (“GAAR”) to the Paulson Proposal, it would be referring the ruling application to the GAAR Committee. The GAAR Committee is a committee of representatives from the CRA, the Department of Finance and the Department of Justice established to provide advice as to the application of GAAR. Algoma made an additional submission on January 17, 2006 describing in detail why GAAR should not apply to the Paulson Proposal. The Rulings Directorate of the CRA advised Algoma that it would be recommending to the GAAR Committee that it conclude that GAAR would apply to the Paulson Proposal. Recently, Algoma received verbal notice that the GAAR Committee unanimously concluded that GAAR would apply and a favourable tax ruling would not be issued, as to do so would be a subversion of the tax rules applicable to issuer bids. **In effect, the CRA has determined that the Paulson Proposal does not work from a tax perspective.**

## **Ongoing Activities**

Since discontinuing the formal sale process, the Special Committee, Board and management have continued working with their financial and legal advisors to seek new opportunities to maximize Shareholder value. Developments in the fourth quarter of 2005 and the first quarter of 2006 with respect to Dofasco Inc. have generated renewed interest in possible strategic activity involving North American steel companies, including Algoma. In that time frame, the Corporation has engaged in discussions with selective third parties, including, in some cases, entering into confidentiality agreements, updating and reopening the Corporation’s data room and facilitating on site due diligence. These types of discussions and activities are ongoing, however no decision on any particular strategic alternative has been reached at this time. There can be no assurance that the review process will result in any change to Algoma’s business strategy or in the consummation of any agreement or transaction.

## PARTICULARS OF MATTERS TO BE ACTED UPON AT THE MEETING

### The Paulson Proposal

The Requisition calls for Shareholders to consider each of the following matters at this Meeting:

1. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution to remove from office a majority of Algoma's current directors, being Messrs. Steven Bowsher, Alexander Davidson, Benjamin Duster, Patrick Lavelle, James Lawson, Charles Masson and Francis Petro, as directors of the Corporation (the "Removal Resolution");
2. to consider, and if deemed advisable, pass, with or without variation, a special resolution to amend the Corporation's Articles to provide that there be nine directors (the "Board Size Resolution");
3. if the resolution in paragraph 1 is passed, to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution to fill the vacancies created by the foregoing removal of directors of the Corporation by the election of the following five nominees proposed by Paulson & Co. ("Paulson" or the "Requisitioning Shareholder") to hold office until the close of the first annual meeting of shareholders following their election: Messrs. Trevor Eyton, Farokh Hakimi, Nicholas Tolerico, Michael Waldorf and John Hritz (the "Paulson's Nominees Resolution");
4. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution directing the Corporation's board of directors to consider, and if thought appropriate, to issue \$200 million of new notes not subject to mandatory payment in respect of the outstanding principal amount until a date no earlier than 2010 (the "Notes Resolution"); and
5. to consider, and if deemed advisable, pass, with or without variation, an ordinary resolution directing the Corporation's board of directors to consider and, if thought appropriate, to place before the Corporation's common shareholders for their approval a transaction to distribute cash retained by the Corporation to common shareholders on a tax efficient basis whereby common shareholders may elect to receive, in each case subject to *pro rationing*, (i) cash at a price per common share representing a premium to the market price for the common shares, or (ii) common shares in the Corporation or its successor, provided that such cash component shall not be less than \$400 million or the maximum amount permitted by law if less than \$400 million (the "Restructuring Resolution").

Your Board recommends voting **AGAINST** each of the Removal Resolution, the Board Size Resolution, the Notes Resolution and the Restructuring Resolution and to **WITHHOLD** from voting in respect of Paulson's Nominees Resolution. As a special resolution, the Board Size Resolution requires the approval of at least 66⅔% of the votes cast in person or by proxy by Shareholders who are entitled to vote on the resolution.

The details of the series of proposed transactions necessitated by the resolutions in items 4 and 5 are described in Schedule "I".

### Shareholder Proposal

Attached hereto as Schedule "A" is the Requisitioning Shareholder's Statement of Support in relation to each of the above resolutions to be considered at the Meeting. This material has been provided by Paulson and its inclusion by the Corporation in this Circular is required by law.

## RATIONALE TO VOTE AGAINST THE PAULSON PROPOSAL

### Strong and Experienced Board

The Board includes individuals with current and proven senior experience in the steel industry and other manufacturing industries, as well as financial, legal and corporate governance expertise, as well as current and former management and directors of manufacturing and finance companies.

The Board is deeply committed to creating and maximizing value for Shareholders, which has led it to make necessary and difficult decisions. Paulson and its agents have alleged the Board is seeking to entrench

itself. This is nonsense. By exercising its fiduciary duties and challenging the Paulson Proposal, it is in fact putting its position at risk.

When Algoma emerged from creditor protection in January 2002, a new Board was established with independent, experienced and value-focused professionals. The Board has been active in guiding the Corporation through a challenging transition and through a difficult steel market. Management supports the current 11 directors and they believe that these directors have superior qualifications and have served the Corporation well. Keeping the Board at its current size, the size at which it was set at the annual and special meeting of Shareholders on May 11, 2005, will permit the retention of directors with specific skills who were added to the membership of the Board and its various Committees when the Corporation emerged from creditor protection in January 2002.

### **The Board is Managing Algoma to Maximize Value for Shareholders**

The Board believes that it has protected and promoted the best interests of the Corporation and its Shareholders in challenging business conditions in a volatile and uncertain steel industry. The Board has served Shareholders well over the past four years since the restructuring by:

- recruiting a new Chief Executive Officer, Denis Turcotte, and repositioning the business;
- driving major improvements in revenues, cost reduction, productivity and profitability;
- delivering a 902% return to Shareholders from February 21, 2002 to February 20, 2006 vs. a 72% total return on the S&P TSX Composite;
- returning \$238 million to Shareholders in a 2005 special dividend;
- initiating a normal course issuer bid for up to 3.3 million Common Shares of which approximately 1.6 million Common Shares were acquired prior to when the program was suspended;
- running a strategic review process which, among other alternatives intended to increase shareholder value, considered selling Algoma's business;
- achieving the highest operating income per ton of all steel producers in North America in 2004 and highest operating income per ton of all integrated steel producers in North America in 2005; and
- continuing ongoing efforts to implement strategic alternatives that enhance shareholder value.

Algoma has a skilled and committed management team with in-depth knowledge of Algoma's products and competitors. Management has strong industry expertise and experience as well as business and technical skills. The track record of the Board and management with respect to net income, net debt and share price has been excellent. Algoma's net income increased from \$8.4 million in 2003 to \$239.6 million in 2005. Algoma's share price has increased from \$3.35 at the end of 2002 to \$29.15 on August 12, 2005 (the day before the stock started trading ex the special dividend) and is at \$27.55 as at the date of this Circular, notwithstanding the payment of the special dividend of \$6.00 paid in August 2005.

The Board has been and continues to be focused on creating value for Shareholders. As a result, since February 21, 2002, the equity value of Algoma's Shareholders' interests (inclusive of the special dividend) has increased by over \$1 billion. The Board believes that Algoma is well positioned for future success.

### **The Board has Delivered Value for Shareholders while Effectively Managing Risk in the Uncertain and Volatile Steel Industry**

Algoma's business is subject to a number of risks that, if not managed properly, could result in insolvency, as evidenced by Algoma's troubled history over the past twenty years. These risk factors include the cyclical and highly competitive nature of the North American steel industry, the volatile cost of raw materials and energy, the capital intensive nature of Algoma's business and the current under funded position of Algoma's pension plans.

The North American steel industry is cyclical in nature and sensitive to general economic conditions with steel prices fluctuating according to demand from other cyclical industries such as the automotive, construction, appliance, machinery and transportation industries. Due to its product mix, Algoma has a higher exposure to spot markets than most of its North American competitors and is therefore more subject to volatility in its selling prices.

Algoma competes with numerous foreign and domestic steel producers which, taken together, have produced a substantial increase in global steel capacity. Some of Algoma's competitors have greater financial and capital resources than Algoma or operate with lower costs and a more flexible cost structure. Certain non-market economy foreign steel producers are owned, controlled or subsidized by their governments with production and sales decisions based more on political and economic policy considerations than market conditions.

Algoma's operations require substantial amounts of raw materials and energy. The price and availability of these inputs are subject to market forces and substantial variability in price. In addition, Algoma could be adversely affected by a period of declining steel prices while exposed to high contractual prices for some of its raw material sources. These factors create the risk of a material adverse effect on Algoma's operations.

Algoma's operations are capital intensive, requiring substantial capital investment and maintenance expenditures over the next five years. It is expected that a full reline of Algoma's blast furnace will be required in 2010 at an estimated capital cost of approximately \$125 million. The actual timing of the reline is highly dependent upon a number of operating variables and the actual cost of the reline could vary significantly from the estimate due to cost escalation, changes in scope and a variety of other factors.

Algoma had an unfunded pension liability of \$287 million as at December 31, 2005 requiring significant annual payments.

In managing Algoma's business in the challenging environment created by these risk factors, the current Board and management take a long-term perspective, working to position Algoma to enhance profitability and maximize Shareholder value throughout the business cycle. The Board aims to create and sustain value for Shareholders and a sustainable business for all of Algoma's stakeholders.

The Board is optimistic that business conditions will be favourable in fiscal 2006. However, there are a number of uncertainties in Algoma's current business environment including volatility in input prices (raw materials and energy) and in steel prices. The Board believes that this uncertain environment requires a cautious approach to capital structure and liquidity in the near-term and requires that Algoma be managed to the weak case scenario. Under current business conditions, the Board intends to maintain a prudent level of liquidity, evaluating investment opportunities based on appropriate rates of return. To the extent that Algoma has excess capital relative to a prudent level of liquidity, and having regard to investment opportunities, the Board will distribute any excess to Shareholders, as it did in August 2005.

### **The Board Continues to Consider Strategic Alternatives to Maximize Value for Shareholders**

The Board has been mindful of strategic alternatives in order to maximize Shareholder value since Algoma's restructuring in January 2002, including the potential for value creation through either acquisitions or a sale. The Board has, from time to time since 2003, explored and evaluated a number of strategic opportunities on behalf of Shareholders with a view to maximizing Shareholder value.

In late 2004, the Board established a Special Committee of directors, composed of Benjamin Duster (as Chair), Patrick Lavelle and Jim Lawson, to oversee the Stelco review process and a formal strategic alternatives review. Messrs. Duster, Lavelle and Lawson are all independent directors. BMO Nesbitt Burns Inc. acted as financial advisor to the Special Committee in support of the strategic alternatives review process. The review involved the evaluation and consideration of a full range of strategic alternatives, including reinvestment, expansion opportunities through acquisition, joint venture or other business arrangement, the sale or merging of the business, and other alternatives potentially in the best interest of Shareholders, including the current business model. As part of this process, Algoma initiated discussions with, and provided

information to, a number of potential purchasers, both strategic and financial to gauge interest in a purchase of Algoma, some of whom signed confidentiality agreements with and performed due diligence on the Corporation using an electronic data room set up by the Corporation.

In May 2005, Algoma announced that the Board had been active in terms of evaluating strategic alternatives available to Algoma and sought to pursue the path that would create the highest value for Shareholders.

On August 3, 2005, the Corporation announced that, based on its review of strategic alternatives, it was discontinuing the formal process of actively pursuing a sale of Algoma. Algoma's senior management and the Special Committee had invested a significant amount of time to determine if a sale of the Corporation was the most effective way to maximize Shareholder value. The Board concluded that, due to a variety of factors, a sale was not appropriate at that time.

Over the past few months, however, the Special Committee, Board and management have been working with their financial and legal advisors to seek new opportunities to maximize Shareholder value. Developments in the fourth quarter of 2005 and the first quarter of 2006 with respect to Dofasco Inc. have generated renewed interest in possible strategic activity involving North American steel companies, including Algoma. In that time frame, the Corporation has engaged in discussions with selective third parties, including, in some cases, entering into confidentiality agreements, updating and reopening the Corporation's data room, and facilitating on site due diligence. These types of discussions and activities are ongoing, however no decision on any particular strategic alternative has been reached at this time. There can be no assurance that the review process will result in any change to Algoma's business strategy or in the consummation of any agreement or transaction.

#### **The Board Has Always Considered Strategic Alternatives that have been Presented to Algoma**

Despite Paulson's claims to the contrary, the Board has always been willing to give serious consideration to strategic opportunities that are presented to Algoma. Consistent with its fiduciary duty, the Board appropriately and diligently considers any opportunity with a view to enhancing Shareholder value.

Paulson and its agents have alleged the Board is seeking to entrench itself. This is nonsense. By exercising its fiduciary duties and challenging the Paulson Proposal, it is in fact putting its position at risk. Although Algoma, like many other public companies, has a shareholder rights plan (the "Rights Plan"), the Board believes the Rights Plan does not restrict third parties or Shareholders from proposing strategic opportunities to the Corporation or its other Shareholders, even in the face of opposition from the Board. The Rights Plan was adopted in November 2004. As Paulson's actions demonstrate, third parties or Shareholders remain free to take action to advance their proposals by other means.

#### **Paulson Offers No Premium for a Change of Control and Seeks Liquidity at the Expense of Other Shareholders**

***Paulson wants control, with no control premium.*** The Board is concerned that Paulson is seeking to take control of Algoma, for no consideration, while having no articulated business plan for the Corporation except the extraction of cash, and no meaningful, long-term interest in Algoma's business. The Board believes that the Paulson Proposal, rather than being about shareholder value, shareholder rights or the Corporation's performance, reflect an underlying short-term, opportunistic motivation to deal with Paulson's specific liquidity concerns. Given the size of its holdings in Algoma (7.4 million Common Shares or 19%), Paulson is not able to effectively trade out of its position except at a discount to market. Accordingly, the Board believes the Paulson Proposal is designed to address Paulson's own liquidity issues at the expense of the long-term interests of Algoma's other Shareholders.

***Paulson has a short-term view.*** The Board's perspective on enhancing Shareholder value is very different from the perspective of Paulson. The Board is obliged to act with a view to the best interests of Algoma having regard to all of the Shareholders and all of the other stakeholders, including Algoma's employees and the community in which Algoma operates. Paulson has no obligations to anyone but itself and no interest to

consider other than its own self-interest. The Board takes a long-term perspective on maximizing value, and focuses its efforts on the long-term viability of Algoma. Paulson is focused on its own short-term interests which the Board believes is primarily to create opportunities to liquidate its position. This difference in perspective translates into a different appetite for risk when it comes to decisions concerning appropriate leverage, liquidity for the business, and capital deployment.

The Board believes that the extraction of cash as Paulson suggests at this time is not in the best long-term interests of Shareholders generally. If the Paulson Proposal was to be implemented, Paulson would address its liquidity issue while depriving Algoma's other Shareholders of the opportunity to realize a greater return on their investment.

The Board firmly believes that Algoma, and ultimately shareholder value, will suffer if Paulson's nominees assume control. At the very least, Paulson appears to be pursuing its own self-interest without regard to the interests of Algoma's other Shareholders.

### **The Paulson Proposal Will Disrupt Algoma's Business**

***Potential for operational disruption at Algoma.*** Paulson does not propose to replace Algoma's President and Chief Executive Officer, Denis Turcotte. However, if Paulson's nominees follow its direction they will take the Corporation in a direction incompatible with management's current direction for Algoma's business. Management may not wish to remain in their current positions and may instead wish to explore alternative opportunities at companies in less turmoil. The United Steelworkers of America ("USWA") represents over 95% of Algoma's employees. One of Algoma's strengths is its positive working relationship with the USWA. The USWA is strongly opposed to the Paulson Proposal and its board nominees. Its opposition includes seeking a court injunction to stop the Paulson Proposal which will be heard on February 28, 2006. If the Paulson Proposal is approved, the relationship between the Corporation, the USWA and its employees will be seriously undermined. If Paulson's nominees are elected, Algoma will experience internal disruption that may adversely affect its business.

***Paulson's nominees are not experienced with and may be conflicted with Algoma.*** Paulson proposes to replace the Board with a group of individuals who have no working knowledge of Algoma or its business, and who have not articulated a business plan for the Corporation or a concrete strategy for maximizing Shareholder value other than to take on additional debt and distribute retained cash. In this climate of renewed interest in mergers and acquisitions in the North American steel industry, it would be counter-productive and not in Shareholders' interests to have a substantial number of new directors who would need to quickly climb a very steep learning curve at this critical juncture.

Certain members of the Paulson slate may also have interests that may conflict with those of Algoma's Shareholders. Paulson's proposed directors include: J. Trevor Eyton, a director of Brookfield Asset Management Inc., the largest shareholder of Stelco Inc.; and Nicholas Tolerico, who is affiliated with ThyssenKrupp Steel Services, a possible buyer of Dofasco Inc. In addition, one of Paulson's nominees, John Hritz, has a history of very damaging conflict with the USWA. The Corporation's relationship with the USWA will be adversely affected if Paulson's nominees are elected.

If Paulson's Nominees are elected, many of Algoma's customers and suppliers may begin to question the Corporation's reliability due to the turmoil among the Board, management and employees as a whole. If there is internal disruption among Algoma's senior management and employees, its customers may not receive the level of service and product quality they deserve and have come to expect. As a result, one or more customers may choose to seek alternative sources of supply and discontinue purchasing products from Algoma. Ultimately, Shareholders will pay the price for any loss of business that could result from Paulson's actions.

## **The Paulson Proposal to Raise Additional Debt and Distribute Retained Cash are Risky and Imprudent at this Time**

**Paulson would weaken Algoma's financial position.** Paulson, once it replaces the Board with the Requisitioning Shareholder Nominees, proposes to:

- significantly reduce Algoma's cash reserves;
- add \$200 million of debt at an uncertain time; and
- strip \$400 million of cash for distribution using a tax scheme that the CRA says does not work.

If the Paulson Proposal was implemented, the result will be the unravelling of four years of progress at Algoma, leaving Algoma weaker in the face of a volatile and uncertain steel industry. The Paulson Proposal would reverse Algoma's momentum. It would undermine Algoma's financial position. It could trigger change of control provisions in Algoma's contracts with other parties. It would limit Algoma's strategic options and leave the Corporation vulnerable. It would remove a Board with a proven record of delivering value, could result in the loss of senior management and leave all stakeholders facing an uncertain future or, worse, a return to the troubled past.

**DBRS agrees the Paulson Proposal would result in a downgrade of Algoma debt.** Upon receipt of the Paulson Proposal, the Board convened a special meeting on October 25, 2005 to consider its response. Based on the Board's overall approach to maximizing value and assessment of Algoma's current outlook, the Board determined that the near-term distribution of at least \$400 million to Shareholders would leave too little liquidity in the current uncertain business environment, and would give too little consideration to Algoma's near-term obligations which include payments in 2006 for a 2005 income tax liability of approximately \$54 million and employee profit sharing of approximately \$15 million. The Board's concerns in this regard were subsequently reinforced by the Dominion Bond Rating Service ("DBRS") which advised in a press release dated December 6, 2005 that it would downgrade Algoma's debt if the Paulson Proposal was implemented.

In addition, the Board has specific concerns about the Paulson Proposal in view of steel market prospects and tax issues.

**Steel market prospects are uncertain.** Algoma's target capital structure contemplates up to 25% debt to capital over time. The timing of a debt financing to move Algoma towards this target is dependent on steel market prospects, high yield market conditions and investment opportunities.

Algoma's profitability is highly correlated with the level of steel prices which is a major factor causing variation in operating results. Raw material and energy costs also emerged as significant factors impacting profitability during fiscal 2005. Industry pricing is largely dependent on global supply, the level of steel imports into North America and economic conditions in North America. Since U.S. markets establish pricing levels, the exchange rate of the Canadian dollar to the U.S. dollar significantly impacts pricing realizations for Algoma. Excess steel inventories at the end of 2004 and weaker North American demand from several market sectors contributed to lower prices in 2005, reaching a low in August 2005 as excess inventories were depleted. Selling prices recovered somewhat in the fourth quarter due to a better balance between supply and demand.

While the outlook for the first quarter of 2006 is relatively positive, the prospects remain uncertain beyond the first quarter. Selling prices seem to be holding at close to fourth quarter 2005 levels, but the substantial gap between North American pricing and global pricing (particularly in China) remains a concern and offshore imports are expected to put pressure on pricing in North America. In addition, the strong Canadian dollar has a negative effect on revenues as noted above.

The price of iron ore, which is Algoma's single largest cost input (over \$300 million in 2005) is expected to increase in 2006. The magnitude of the increase has not been determined and is subject to substantial uncertainty pending the outcome of global negotiations. The cost of coal (cost of about \$140 million in 2005) is projected to increase significantly in the second half of 2006 as Algoma's lower priced contracts expire at the end of the first quarter. Natural gas prices, which have declined recently from the record high levels of the

fourth quarter of 2005, remain at high levels relative to previous years and there is substantial uncertainty about future prices. In summary, the Corporation faces significant escalation to certain of its major cost inputs, and substantial uncertainty with respect to future selling prices.

The Board believes that a rush to an immediate cash distribution during the first half of 2006, without the benefit of further insight into the direction of prices for key raw material inputs and end market steel products, is ill-timed. The Board believes that Algoma should maintain significant cash resources throughout the first half of 2006 as the steel industry enters a period of substantial uncertainty. As the market outlook for fiscal 2006 becomes clearer, Algoma will become better positioned to consider both the form and amount of any distribution in the context of Algoma's cash needs.

**The Paulson Proposal is based on an Unproven Tax Restructuring; if, as in the View of the CRA, Paulson is Wrong, Algoma Could Have a Significant Tax Liability**

The actions proposed by Paulson are novel and untested from a tax standpoint and, therefore, the resulting tax impact for Algoma and its Shareholders are uncertain. The Paulson Proposal is designed to distribute cash without withholding taxes being applicable to non-resident Shareholders. In particular, Paulson suggests that the proposed reorganization would be a capital transaction resulting in a capital gain or loss for Shareholders, depending on the adjusted cost base of each Shareholder's shares. Canadian resident Shareholders would be able to defer any capital gain with respect to the share exchange portion of the transaction. The suggested result would be that no part of the cash received would be taxed as a dividend and that non-Canadian Shareholders would not be subject to withholding tax.

The Board received professional advice that it would be appropriate to seek an advance income tax ruling from the CRA to clarify the tax consequences to Algoma and its Shareholders of the novel tax structure proposed by Paulson. The tax consequences of the Paulson Proposal are by no means clear particularly because of the general anti-avoidance rule ("GAAR"). The application of GAAR prior to a reassessment can only be clarified by applying for an advance tax ruling. If the Paulson Proposal was to be implemented and it was later determined that withholding tax should have been withheld because the proper tax treatment is to treat a portion of the cash payment as a dividend, Algoma would be liable to pay the withholding tax, together with penalties and interest, even though the cash had already been paid to non-resident Shareholders.

Algoma applied to the CRA for an advance income tax ruling on December 5, 2005. The CRA subsequently advised that it was referring the advance income tax ruling request to the GAAR Committee for its review. Recently, Algoma was informed that the GAAR Committee unanimously concluded that GAAR would apply and a favourable tax ruling would not be issued. While such a determination by the CRA does not preclude Algoma from implementing the Paulson Proposal, in light of the decision of the GAAR Committee, there would be a high risk of reassessment and a significant tax liability for the Corporation if the Paulson Proposal was undertaken. The Corporation's legal counsel have advised the Board that it would be imprudent to proceed with the Paulson Proposal without withholding tax on payments to non-resident Shareholders. This is because, in light of the position of the CRA, there would be a high risk of reassessment and a significant tax liability for the Corporation if the Paulson Proposal was undertaken without such withholding of tax by Algoma.

### **SUMMARY**

The Corporation is well positioned to succeed at this time. The Board includes individuals with current and proven senior experience in the steel industry and other manufacturing industries, as well as financial, legal and corporate governance expertise, as well as current and former management and directors of manufacturing and finance companies.

**The Board is concerned that Paulson is seeking to take control of your Corporation, for no consideration, while having no articulated business plan for the Corporation except the extraction of cash and no meaningful, long-term interest in Algoma's business. The Board of Directors believes that the Paulson Proposal reflects Paulson's underlying short-term, opportunistic motivation to address its own liquidity issue at the expense of the Corporation and its other Shareholders. The Board believes**

that the extraction of cash as Paulson suggests at this time is not in the best long-term interests of Shareholders generally.

**Consider the record. Consider the risks.**

**REJECT**

**the Paulson Proposal.**

Your Board of Directors recommends that you act to preserve the long-term value of your investment in Algoma by signing, dating and returning the enclosed BLUE form of proxy WITH THE ALGOMA LOGO in accordance with the instructions on the BLUE form.

## THE CURRENT BOARD OF DIRECTORS

The 11 directors of the Corporation are listed below. All are currently directors of the Corporation and have been directors since the dates indicated below.

Unless the Removal Resolution and/or the Board Size Resolution is passed all of the Corporation's current directors are elected to serve until the 2006 annual meeting of Shareholders. Under its collective agreements with the United Steelworkers of America (USWA), three of the Corporation's directors are to be nominated by the USWA. John Kallio, Marie Kelly and Murray Nott are the USWA nominees. Denis Turcotte, the Corporation's President and Chief Executive Officer, is required to be nominated to serve as a director pursuant to his employment agreement.

The following biographical information concerning current directors has been provided by them.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Common Shares Owned or Controlled</u>
Steven Bowsher <sup>(3)(5)</sup> . . . . . Prospect Heights, Illinois, USA	President, ClearCut Advisors, 2002-present; President and CEO, Indesco International, 2001-2002; Executive Vice President Commercial, Ispat Inland Steel Corporation, 1998-2000.	May 22, 2003	2,389
Alex Davidson <sup>(1)(2)(4)</sup> . . . . . Minesing, Ontario, Canada	Director and Member of Audit Committee and Corporate Governance Committee of EPCOR Utilities Inc., 2005-present; Trustee, Director and Chair of Audit Committee, UE Waterheater Income Fund, 2003-present; Business Consultant (part-time), 1999-present; previously Senior Business Assurance Partner, PricewaterhouseCoopers LLP.	May 11, 2005	1,135
Benjamin Duster <sup>(6)</sup> . . . . . Atlanta, Georgia, USA	Chairman of the Board of the Corporation; Head of Financial Restructuring, Masson & Company, LLC, 2001-present; Managing Director, Mergers & Acquisitions, Wachovia Securities, 1997-2001.	January 29, 2002	38,857
John Kallio <sup>(2)(5)(7)</sup> . . . . . Sault Ste. Marie, Ontario, Canada	Production worker-Plate & Strip Complex, September 2005-present; and Union Department Steering Committee Co-Chair-Plate & Strip, 2002-September 2005-both positions with the Corporation.	October 29, 1996	4,876
Marie Kelly <sup>(2)</sup> . . . . . Toronto, Ontario, Canada	Assistant Director, United Steelworkers of America, District 6, 2001-present; Counsel to United Steelworkers of America, 1991-2001.	October 27, 2004	1,306
Patrick Lavelle <sup>(1)(4)(6)(8)</sup> . . . . . Toronto, Ontario, Canada	Chairman and CEO, Patrick J. Lavelle and Associates, a strategic management consulting firm.	January 29, 2002	5,982

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Common Shares Owned or Controlled</u>
James Lawson <sup>(3)(4)(6)</sup> . . . . . Oakville, Ontario, Canada	President and CEO, Westerkirk Capital Inc., 2004-present; Partner, Torys LLP, 2001-2004; Senior Vice President-Corporate Development and General Counsel, XO Communications Canada Inc., 2000-2001; Partner, Davies Ward & Beck, 1989-2000.	January 29, 2002	2,406
Charles Masson <sup>(1)(4)(5)</sup> . . . . . New York, New York, USA	Partner, Masson & Company, LLC, 1998-present.	February 28, 2002	30,476
Murray Nott <sup>(5)(9)</sup> . . . . . Sault Ste. Marie, Ontario, Canada	Metallurgical Specialist-Quality Engineering, 1997-present, Algoma Steel Inc.	June 1, 1992	17,741
Francis Petro <sup>(1)(2)(3)</sup> . . . . . Kokomo, Indiana, USA	President and CEO of Haynes International Inc., 1999-present.	May 22, 2003	3,536
Denis Turcotte . . . . . Sault Ste. Marie, Ontario, Canada	President and CEO of the Corporation, Sept., 2002-present; President-Paper Group/Executive Vice President Corporate Development and Strategy, Tembec Inc., 1999-2002.	October 4, 2002	118,336

Notes:

- (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.
- (7) Mr. Kallio was a director of the Corporation during its *Companies' Creditors Arrangement Act* ("CCAA") process in 2001-2002.
- (8) Mr. Lavelle was a director of Slater Steel Inc. during its recent CCAA restructuring.
- (9) Mr. Nott was a director of the Corporation during its CCAA process in 2001-2002.

## PAULSON NOMINEES

The following information about the Paulson Nominees has been provided by Paulson. None of the Paulson Nominees have previously been a director of the Corporation. If the Paulson's Nominees Resolution is passed the Paulson Nominees will be elected to serve until the 2006 annual meeting of Shareholders.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation and Education</u>	<u>Common Shares Owned or Controlled</u>
J. Trevor Eyton, O.C. . . . . Toronto, Ontario, Canada	Canadian Senator; Chairman, Ivernia Inc.; Former Chairman and current Director, Brascan Corporation (now Brookfield Asset Management Inc.); Director of Coca-Cola Enterprise Inc. (Atlanta); Graduate of University of Toronto.	None
Farokh Hakima . . . . . Toronto, Ontario, Canada	Former Executive Vice President, Chief Financial Officer and Chief Development Officer, Inco Limited; Former Chief Financial Officer, Rio Algom Limited; Former Treasurer, Cyprus Amax Minerals Company; Holder of Ph.D. from Princeton University; Graduate of University of Massachusetts.	None
Nicholas Tolerico . . . . . Fort Mill, South Carolina, USA	Former President, ThyssenKrupp Steel Services; Former Director of Federal Relations, LTV Corporation; Former senior official working on steel industry makers in International Trade Administration, U.S. Department of Commerce, Graduate of Pennsylvania State University.	1,000
Michael Waldorf . . . . . New York, New York, USA	Senior Vice President, Paulson & Co. Inc.; Former Vice President in the investment banking division of Credit Suisse First Boston; Former corporate lawyer, Fried, Frank, Harris, Shriver & Jacobson; Graduate of Harvard College and Harvard Law School.	None <sup>(1)</sup>
John Hritz . . . . . Cincinnati, Ohio, USA	Former President, Executive Vice President (Operations and Commercial), General Counsel and Vice President (Employee Relations), AK Steel Corporation; Former corporate attorney and project engineer, Commercial Intertech Corp.; Former design engineer, test engineer, general foreman and journeyman electrician-wireman, U.S. Steel; Graduate of University of Akron School of Law and Youngstown State University.	None

Notes:

(1) Paulson has control or direction over investment funds and managed accounts which as of the date of this circular hold 6,925,000 common shares of Algoma Steel Inc.

## **VOTING SHARES AND PRINCIPAL HOLDERS**

38,608,189 Common Shares of the Corporation are outstanding as of February 20, 2006. Each holder of a Common Share is entitled to one vote for each share registered in the Shareholder's name on the list of Shareholders prepared as of February 20, 2006 with respect to all matters to be voted on at the Meeting. However, in the event of any transfer of shares by any such Shareholder after such date, the transferee is entitled to vote those shares if the transferee produces properly endorsed share certificates, or otherwise establishes that it owns the shares, and requests the Secretary of the Corporation to include the transferee's name in the Shareholders' list not later than ten days before the Meeting.

To the knowledge of the directors and officers of the Corporation, the only person or company who beneficially owns, directly or indirectly, or exercises control or direction over, securities of the Corporation carrying more than 10% of the voting rights attached to any class of outstanding voting securities, are: (i) Paulson & Co., which owns, directly or indirectly, approximately 6,925,000 Common Shares representing approximately 17.9% of the issued and outstanding Common Shares of the Corporation; and (ii) Fidelity Management & Research Corporation, Fidelity Management Trust Corporation and certain of its affiliates and associates collectively which own, directly or indirectly, approximately 5,660,100 Common Shares representing approximately 14.5% of the issued and outstanding Common Shares of the Corporation.

## **COMPENSATION OF DIRECTORS**

Directors who are full-time officers of the Corporation do not receive compensation as directors.

The compensation paid to each director of the Corporation for the year ended December 31, 2005 was \$20,000 per annum plus \$1,500 for each meeting of the Board attended. Directors who serve on committees of the Board are paid \$3,000 per annum as a member; \$5,000 per annum as chairman, with the Audit Committee Chairman being paid \$10,500 per annum; and \$1,500 for each meeting of a committee attended.

In lieu of the compensation paid to directors noted above, Mr. Duster, as Chairman of the Board, is paid an annual fee of \$115,000.

In addition, on January 14, 2006 the Corporate Governance Committee recommended to the Board that additional payments in respect of 2005 be made to the members of the Special Committee due to the workload of the Special Committee in 2005 and the need to be available on an almost around-the-clock basis for meetings and other discussions with management. The Board approved an additional payment in respect of 2005 to the Special Committee Chairman of \$80,000 and to the other members of the Special Committee of \$50,000. The Corporate Governance Committee has advised that it recommends that the Board review the activities of the Special Committee again for 2006.

Directors who are not full-time officers of the Corporation also participate in the Outside Directors Share Award Plan (the "Share Award Plan") described below under "Compensation Plans — Share Award Plan". The compensation paid to directors for the financial year ended December 31, 2005 pursuant to the Share Award Plan was Common Shares having a value of \$81,000 for the Chairman and \$36,000 for each of the other directors.

## **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Corporation provides directors' and officers' liability insurance for the past, present and future directors and officers of the Corporation and its subsidiaries for liability arising from the performance of their duties as directors and officers of the Corporation and its subsidiaries.

The insurance policies provide coverage to a total limit of \$60 million for the personal liability of the directors and officers and include coverage to reimburse the Corporation for its indemnity of its directors and officers up to a limit of \$55 million. There is no deductible applicable for individual directors and officers named as defendants in any one action. Corporate reimbursement coverage is subject to a \$1,000,000 deductible for each claim. Under this coverage, the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its directors and officers subject to the applicable deductible.

Individual directors and officers are reimbursed for losses during the performance of their duties for which they are not indemnified by the Corporation. This coverage includes a \$5 million policy with a three year run-off for the personal liability of the directors and officers in the event of a change of control. In addition, the Corporation has established a trust containing \$5 million, to be administered by a third party trustee, for the purpose of funding defence costs and substantive exposure of the Corporation's current directors and officers in relation to claims not funded on an immediate basis by the Corporation or its insurers. Trust funds are drawable, and will be invested by the trustee in liquid cash equivalent instruments, at the direction of any two of the current Chairman of the Board, current Chairman of the Corporate Governance Committee or current Chairman of the Audit Committee. This trust will terminate upon the earlier of the occurrence of certain events of termination enumerated in the trust agreement and December 31, 2006.

In the latest financial year ended December 31, 2005, the Corporation paid a total premium of \$412,000 for directors' and officers' liability insurance coverage. The premiums for the policies are not allocated between directors and officers as separate groups.

### **AUDITOR**

KPMG LLP is the auditor of the Corporation. The Corporation accepted the resignation of Ernst & Young LLP as the auditor of the Corporation effective February 25, 2005. On March 2, 2005, KPMG LLP was appointed by the Board as the auditor of the Corporation to hold office until the next Annual General Meeting of Shareholders.

### **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 "financially literate" 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 Management Information Circular as Schedule "G".

#### **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; and
- 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 Circular as Schedule “G”. Information regarding the Corporation’s Audit Committee will be included in the “Audit Committee” section of the Corporation’s Annual Information Form (the “AIF”) for the financial year ended December 31, 2005 to be filed on or before March 31, 2006. A copy of the AIF can be obtained, once filed, by contacting the Corporation’s Vice President — Business Development and Corporate Secretary, at 105 West Street, Sault Ste. Marie, Ontario P6A 7B4 or can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **EXECUTIVE COMPENSATION MATTERS**

### **Composition of the Human Resources and Compensation Committee**

The Human Resources and Compensation Committee currently consists of three directors: Steven Bowsher (Chair), James Lawson and Francis Petro, all of whom were members of the Committee during the year ended December 31, 2005. None of the members of the Human Resources and Compensation Committee is an officer, employee or former officer or employee of the Corporation or any of its affiliates or is eligible to participate in the Corporation’s executive compensation programs.

### **Report on Executive Compensation by the Human Resources and Compensation Committee**

The Committee oversees all aspects of succession planning, career development and compensation for management employees of the Corporation. The Committee, as part of its responsibilities, considers and recommends approval to the Board of a total compensation package for the Corporation’s executive officers, including an annual base salary as well as short and long-term incentives.

The underlying philosophy of the Corporation’s executive compensation policy is to attract and retain talented senior management, reward management performance, and reinforce business strategies and corporate priorities. This philosophy recognizes the fundamental value added by a motivated and committed management team. The recruitment and retention of senior management who are performance-oriented are fundamental to achieving the Corporation’s objectives.

For the purposes of assisting the Committee, the Corporation utilizes the services of external compensation consultants from time to time. These consultants advise on the Corporation’s compensation policies and provide comparator compensation data as required by the Committee.

The Corporation has developed an ongoing compensation approach comprised of two primary components: base salary and annual incentives. In addition, there is a program of pensions and benefits. The Corporation’s policy is for the salaries of its executive officers to reflect 90% of the median salaries of a comparator group with overall compensation targeted at 100% of the median when annual objectives are met. Companies are selected for the comparator group with the advice of the Corporation’s external compensation

consultants based on their similarity to the Corporation in areas such as size, activity (industrial manufacturing) and location. The Committee reviews the Corporation's executive compensation levels with the external compensation consultants on a regular basis.

The compensation package for each executive includes participation in the Restricted Share Unit Plan (the "RSU Plan") and the Share Option Plan (the "Option Plan"). Both of these Plans are discussed in more detail later in this Circular. These Plans are closely aligned with the Corporation's performance and with the interests of the Corporation's shareholders. The Plans are designed to reward positive corporate performance and the individual contributions of executive officers to the business results of the Corporation on a year-by-year basis. Executive officers are eligible for an annual bonus of cash, restricted share units and options under the Plans.

The design of the RSU and Option Plans is set as a long-term incentive for the executive officers. These plans are designed to encourage share ownership and focus efforts of the management team on improving shareholder value and the Corporation's long-term financial strength. The Option Plan provides incentive to the executive officers to continue employment with the Corporation by providing the executive officers with the opportunity to acquire an increased financial investment in the Corporation as the stock options vest. Options and RSUs granted to the executive officers are granted by the Board of Directors based on recommendations of the Human Resources and Compensation Committee. The number of Options and RSUs granted to an executive officer in any year is related to both corporate and individual performance.

The components of total compensation received by the Chief Executive Officer are similar to those received by other executive officers. In setting the compensation level for the Chief Executive Officer, the Human Resources and Compensation Committee undertakes an annual review of the performance of the Chief Executive Officer, taking into account feedback from the Board of Directors and compensation information from the comparator group discussed above. Special emphasis is placed by the Committee on the performance of the Chief Executive Officer with respect to leadership and strategic issues, including strategic planning. The manner in which such compensation is reviewed and evaluated by the Committee, including referencing the same comparator group, is common for all executive officers, including the Chief Executive Officer. The Chief Executive Officer is eligible for an annual bonus based on overall corporate performance and the successful achievement of objectives and responsibilities as established by the Board.

The awards of restricted share units and associated options to Messrs. Plastino, Finley, Manchester and Royal in 2005 were in recognition of the Corporation's strong performance generally and within the steel industry, and individual performance against stated objectives. The awards of restricted share units and associated options to Mr. Turcotte were made on the basis of corporate performance and the achievement of objectives for the year.

Submitted by the Human Resources and Compensation Committee:

Steven Bowsher, Chair  
James Lawson  
Francis Petro

## **COMPENSATION PLANS**

### **Restricted Share Unit Plan**

Under the Restricted Share Unit Plan (the "RSU Plan"), the Corporation, at its option, may award restricted share units to senior management and directors of the Corporation. The RSU Plan operates in conjunction with the Corporation's short-term incentive plan. The short-term incentive plan provides an opportunity for participants to earn an annual cash award based on the achievement of individual and corporate objectives. Performance is measured by comparing actual results against targets established at the beginning of the year. In each year, a minimum of 25% of each participant's short-term incentive award must be received in the form of restricted share units and participants may elect to receive restricted share units for up to 100% of any short-term incentive award. The number of restricted share units to be granted is

determined by dividing the amount of the incentive award to be received as restricted share units by the fair market value of the Corporation's Common Shares at the time of the grant (equal to the average closing price of Common Shares for the five trading days preceding the date of the grant). Three years from the end of the year for which the restricted share units are granted, each participant will be entitled to receive one Common Share issued from Treasury for each restricted share unit.

1,000,000 Common Shares are reserved for issuance under the RSU Plan. The RSU Plan is administered by the Board of Directors with the assistance of the Human Resources and Compensation Committee. Amendments to the RSU Plan may be made by the Board of Directors without shareholder approval, provided that the limit on the number of Common Shares described above is not exceeded.

### **Share Option Plan**

Under the Share Option Plan (the "Option Plan"), the Corporation, at its option, may award options to senior management and directors of the Corporation. All senior management and directors of the Corporation who participate in the RSU Plan are eligible to be granted options under the Option Plan. The number of options to be issued is based on the number of restricted share units purchased by the participants in ratios determined by the Board of Directors which may vary for members of senior management based on the participant's position in the Corporation. The Human Resources and Compensation Committee determines the exercise price and option term at the time of the grant and any other restrictions on the option. The exercise price of an option may not be less than the fair market value of a Common Share at the time of the grant (equal to the weighted average closing price of Common Shares for the five trading days preceding the date of the grant) and options may not have a term exceeding ten years.

Options vest over three years with one-third of the options vesting on each of the first, second and third anniversaries of the date of the grant. Options become exercisable by a holder on the third anniversary of the date of the grant. The Human Resources and Compensation Committee may provide different exercise rights at the time of the grant. Options may also be granted with a share appreciation right which, at exercise, would, if approved by the Corporation at the time of exercise, allow the participant to receive a cash payment equal to the in-the-money amount of the option.

2,000,000 Common Shares are reserved for issuance under the Option Plan. The Option Plan is administered by the Board of Directors with the assistance of the Human Resources and Compensation Committee. Amendments to the Option Plan may be made by the Board of Directors without shareholder approval, provided that the number of Common Shares reserved for issuance as described above is not exceeded.

### **Share Award Plan**

Under the Share Award Plan, each director is eligible to receive a monthly grant of Common Shares with a market value of up to \$10,000 per month. Effective January 1, 2005, the size of the grants was established at \$81,000 per year for the Chairman and \$36,000 per year for all other directors. The size of the grants may be adjusted from time to time by the Human Resources and Compensation Committee within the limits imposed by the Share Award Plan. The terms of the Share Award Plan provide that 50% of each issuance of Common Shares must be held for a minimum of four months and the remaining 50% for a minimum of twelve months.

The Board of Directors may reserve Common Shares for issuance under the Share Award Plan provided that the maximum number of Common Shares that may be issued, pursuant to the terms of the Share Award Plan, shall not exceed 500,000 Common Shares. The Share Award Plan is administered by the Board of Directors with the assistance of the Human Resources and Compensation Committee. Amendments to the Share Award Plan may be made by the Board of Directors without shareholder approval, provided that the limit on the maximum number of Common Shares described above is not exceeded.

On January 14, 2006 the Board determined that monthly share awards in 2006 would be paid in cash until otherwise determined by the Board.

## Summary Compensation Table

The following table provides a summary of compensation paid since January 1, 2003 for the Corporation's "Named Executive Officers" (determined in accordance with applicable rules).

Name and Principal Position	Year	Annual Compensation			Long-Term Awards Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/SARs Granted <sup>(5)</sup> (#)	Shares or Units Subject to Resale Restrictions <sup>(12)</sup> (\$)	All Other Compensation (\$)
Denis Turcotte <sup>(7)</sup> President & Chief Executive Officer	2005	515,000	910,600 <sup>(4)</sup>	12,000 <sup>(2)</sup>	211,867	6,139,906	—
	2004	503,687	—	137,000 <sup>(1)(2)</sup>	100,000	800,000	—
	2003	432,004	30,000 <sup>(1)</sup>	12,000 <sup>(2)</sup>	233,477	420,259	—
Glen Manchester <sup>(8)</sup> Vice President — Finance and Chief Financial Officer	2005	271,612 <sup>(3)</sup>	133,520 <sup>(4)</sup>	—	16,494	477,996	—
	2004	270,589 <sup>(3)</sup>	—	—	—	—	—
	2003	235,874	—	—	13,000	21,710	—
Armando Plastino <sup>(9)</sup> Vice President — Operations	2005	259,089 <sup>(3)</sup>	244,960 <sup>(4)</sup>	—	37,360	1,082,683	—
	2004	256,052 <sup>(3)</sup>	—	—	28,150	225,200	—
	2003	223,362	—	—	15,600	26,052	—
Paul Finley <sup>(10)</sup> Vice President — Business Development and Corporate Secretary	2005	250,309 <sup>(3)</sup>	200,000 <sup>(4)</sup>	—	20,099	582,469	—
	2004	249,498 <sup>(3)</sup>	—	—	—	—	—
	2003	217,374	—	—	13,000	21,710	—
Paul Royal <sup>(11)</sup> Vice President — Commercial	2005	225,000	197,353 <sup>(4)</sup>	—	36,010	1,043,570	—
	2004	150,750 <sup>(6)</sup>	—	—	—	—	—
	2003	—	—	—	—	—	—

(1) See "Employment Contracts" for explanation.

(2) Automobile allowance.

(3) Includes share of \$10 million restructuring obligation to employees paid in June 2004 and in June 2005.

(4) Includes value of restricted share units granted.

(5) Includes additional restricted share units granted in respect of the August 2005 special dividend.

(6) Employment with the Corporation commenced on April 1, 2004.

(7) Securities under Options/SARs granted includes 175,960 options and 35,917 restricted share units for 2005, 87,500 options and 12,500 restricted share units for 2004 and 233,477 options for 2003.

(8) Securities under Options/SARs granted includes 11,070 options and 5,424 restricted share units for 2005, and 6,500 options and 6,500 restricted share units for 2003.

(9) Securities under Options/SARs granted includes 25,360 options and 12,000 restricted share units for 2005, 22,520 options and 5,630 restricted share units for 2004 and 7,800 options and 7,800 restricted share units for 2003.

(10) Securities under Options/SARs granted includes 13,800 options and 6,299 restricted share units for 2005, and 6,500 options and 6,500 restricted share units for 2003.

(11) Securities under Options/SARs granted includes 27,250 options and 8,760 restricted share units for 2005.

(12) Does not represent the in the money value of the options and restricted share units.

The following table shows stock option grants made to the Named Executive Officers under the Option Plan during the year ended December 31, 2005. Options are granted under the Option Plan by the Board based on recommendations made by the Human Resources and Compensation Committee.

### Option Grants During Financial Year Ended December 31, 2005

Name	No. Of Securities Under Options Granted	% Total Options Granted To Employees In Fiscal 2005	Exercise Or Base Price (\$/Security)	Market Value Of Securities Underlying Options On The Date Of Grant (\$/Security)	Expiration Date
Denis Turcotte	175,960	62.51	28.98	28.98	Feb. 9/15
Glen Manchester	11,070	3.93	28.98	28.98	Feb. 9/15
Paul Finley	13,800	4.90	28.98	28.98	Feb. 9/15
Armando Plastino	25,360	9.01	28.98	28.98	Feb. 9/15
Paul Royal	27,250	9.68	28.98	28.98	Feb. 9/15

The following table shows restricted share unit grants made to the Named Executive Officers under the RSU Plan during the year ended December 31, 2005. Restricted share units are granted under the RSU Plan by the Board based on recommendations made by the Human Resources and Compensation Committee.

### Restricted Share Unit (RSU) Grants During Financial Year Ended December 31, 2005

Name	No. Of Securities Under RSUs Granted	% Total RSUs Granted To Employees In Fiscal 2005	Exercise Or Base Price (\$/Security)	Market Value <sup>(1)</sup> Of Securities Underlying RSUs On The Date Of Grant (\$/Security)	Expiration Date
Denis Turcotte	35,917	38.81	28.98	28.98	N/A
Glen Manchester	5,424	5.86	28.98	28.98	N/A
Paul Finley	6,299	6.81	28.98	28.98	N/A
Armando Plastino	12,000	12.97	28.98	28.98	N/A
Paul Royal	8,760	9.47	28.98	28.98	N/A

(1) Not applicable to restricted share units issued in respect of the special dividend. (See Note 1 to the table immediately below).

The following table shows for each Named Executive Officer the number of Common Shares acquired through the exercise of stock options during the year ended December 31, 2005, the aggregate value realized upon exercise, and the number of Common Shares covered by unexercised options under the stock option plan as at December 31, 2005. The value of the unexercised options is based on the closing price of the Corporation's Common Shares on the Toronto Stock Exchange on December 30, 2005, of \$23.62 plus \$7.68 in respect of the special dividend (see Note 1 to the table immediately below).

## Aggregate Options Exercised During Year Ended December 31, 2005 and Year-End Values

Name	No. Of Securities Acquired On Exercise	Aggregate \$ Value Realized	No. Of Unexercised Options At December 31, 2005 Exercisable/Unexercisable	\$ Value of Unexercised In-The-Money Options At December 31, 2005 Exercisable/Unexercisable <sup>(1)</sup>
Denis Turcotte	30,336	829,690	—/332,611	—/4,486,932
Glen Manchester	—	—	—/17,570	—/218,277
Paul Finley	—	—	—/20,300	—/224,611
Armando Plastino	—	—	—/55,680	—/814,665
Paul Royal	—	—	—/27,250	—/63,220

(1) In August 2005, the Corporation paid a special dividend of \$6.00 per share on its common shares. Pursuant to the Restricted Share Unit Plan, additional restricted share units were issued in respect of the dividend. In order to ensure that outstanding options were not unfairly affected by the August 2005 special dividend, the Share Option Plan was amended to provide for a payment on the exercise of options issued prior to February 28, 2006 of 1.28 times the amount of the special dividend for each such option exercised (being \$7.68).

The following table provides information as at December 31, 2005 regarding the Common Shares issuable upon the exercise of options and restricted share units outstanding under the Share Option Plan and the Restricted Share Unit Plan, as well as the number of Common Shares remaining available for issuance under the aforementioned Plans and the Share Award Plan.

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options and RSUs <sup>(1)</sup>	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Share Option Plan	531,716	\$17.98	1,303,958
Restricted Share Unit Plan	163,074	N/A	836,926
Share Award Plan	N/A	N/A	339,955
<b>Total</b>	<b>695,040</b>	<b>N/A</b>	<b>2,480,589</b>

(1) In August 2005, the Corporation paid a special dividend of \$6.00 per share on its common shares. Pursuant to the Restricted Share Unit Plan, additional restricted share units were issued in respect of the dividend. In order to ensure that outstanding options were not unfairly affected by the August 2005 special dividend, the Share Option Plan was amended to provide for a payment on the exercise of options issued prior to February 28, 2006 of 1.28 times the amount of the special dividend for each such option exercised (being \$7.68).

### PENSION PLAN

The Named Executive Officers with the exception of Mr. Royal participate in the Corporation's pension plan for salaried employees (the "Pension Plan").

The Pension Plan is non-contributory and provides annual benefits equal to the sum of 1.35% of a member's best five years' earnings (to an annual maximum of \$50,000) and 1.71% of a member's best five years' earnings in excess of \$50,000 annually, all multiplied by the member's years of service (to a maximum of 35 years). Earnings include base salary plus 50% of bonuses as reported in the Summary Compensation Table on page 23. The amount of pension payable under the Pension Plan is subject to the maximum permitted under the *Income Tax Act* (Canada). Any amount determined by the above formula that is in excess of the maximum amount payable under the Pension Plan is to be paid to the Named Executive Officer out of general corporate revenues. For the Named Executive Officers, the Corporation has secured the amounts in

excess of the maximum amount payable under the Pension Plan as at the last filed valuation of the Pension Plan.

The annual pension determined above is payable during the member's lifetime. A portion of the total pension equal to \$576, multiplied by years of service (to a maximum of 35 years), is eligible to be indexed annually prior to July 31, 2007 starting two years after retirement based on excess returns on plan assets.

The retirement age under the Pension Plan is age 65. However, an unreduced pension is payable after attainment of age 60 with 10 years of service.

For the purposes of computing the retirement benefit of the Named Executive Officers, years of service as at December 31, 2005 were 33 for Mr. Plastino, 28 for Mr. Manchester, 25 for Mr. Finley and 4 for Mr. Turcotte.

The following table illustrates the estimated total annual benefits payable upon retirement in specific pensionable earnings and years of service classifications.

Pensionable Earnings	Years of Service				
	15	20	25	30	35
\$100,000	\$23,000	\$30,600	\$38,300	\$45,900	\$53,600
125,000	29,400	39,200	48,900	58,700	68,500
150,000	35,800	47,700	59,600	71,500	83,500
175,000	42,200	56,300	70,300	84,400	98,400
200,000	48,600	64,800	81,000	97,200	113,400
300,000	74,300	99,000	123,800	148,500	173,300
400,000	99,900	133,200	166,500	199,800	233,100
500,000	125,600	167,400	209,300	251,100	293,000
600,000	151,200	201,600	252,000	302,400	352,800
700,000	176,900	235,800	294,800	353,700	412,700
800,000	202,500	270,000	337,500	405,000	472,500
900,000	228,200	304,200	380,300	456,300	532,400

## EMPLOYMENT CONTRACTS

The Corporation entered into amended employment agreements with Messrs. Turcotte, Finley, Manchester, Royal and Plastino in February 2006. These agreements provide for base salary and participation in the Corporation's restricted share unit plan, option plan and other incentive plans and in the Corporation's pension and supplemental pension plans (except for Mr. Royal who is entitled only to participation in an RRSP) and for the supplemental pension to be partially secured. These agreements also include non-competition and confidential information provisions. In the case of Messrs. Finley, Manchester, Royal and Plastino, the period of non-competition is 6 months in all cases except resignation by the executive without good reason. In the case of Mr. Turcotte, the period of non-competition is 6 months.

If the Corporation terminates the employment of any of Messrs. Finley, Manchester, Royal or Plastino without cause, or they resign for good reason or resign within the period of 6 to 12 months following a change of control to which the Board does not consent, the executives are entitled to continuation of salary and benefits for two years. Salary is paid as a lump sum in the case of resignation within the period of 6 to 12 months following a change of control. If the Corporation terminates the employment of Mr. Turcotte without cause, he is entitled to continuation of salary, bonus and benefits for two years and to immediate vesting of incentive amounts. The severance period increases to 36 months if the Corporation terminates the

employment of Mr. Turcotte without cause or he resigns for good reason within 12 months following a change of control. Mr. Turcotte may resign within 12 months following a change of control to which the Board does not consent, in which case he is entitled to three years' salary, bonus paid as a lump sum and to continuation of benefits, and immediate vesting of incentive amounts.

Pursuant to Mr. Turcotte's amended employment agreement, his annual salary is \$515,000. In addition to his salary, Mr. Turcotte receives an automobile allowance of \$1,000 per month. On the commencement of his employment, Mr. Turcotte received 20,610 Common Shares having a value of \$100,000 subject to a 12-month hold period. In January 2004, he received 17,400 Common Shares from treasury with a value of \$125,000 and subject to a 12-month hold period. Mr. Turcotte's participation in the Corporation's incentive plans for senior management recognizes the value of certain rights that Mr. Turcotte forfeited with his former employer by accepting employment with the Corporation. In this regard, 233,477 options were granted to Mr. Turcotte in 2003. Mr. Turcotte's pension entitlement, in addition to the regular benefits under the Company's pension plans, includes up to two additional years of pension credit and no actuarial reduction for retirement at age 55.

The Corporation has established a trust containing approximately \$6.8 million, to be administered by a third party trustee, for the purpose of funding change of control departure payments to the Corporation's current officers in the event that such payments are not made by the Corporation on an immediate basis when due. Trust funds are drawable, and will be invested by the trustee in liquid cash equivalent instruments, at the direction of any two of the current Chairman of the Board, current Chairman of the Corporate Governance Committee or current Chairman of the Audit Committee. This trust will terminate upon the earlier of the occurrence of certain events of termination enumerated in the trust agreement and December 31, 2006.

## **CORPORATE GOVERNANCE**

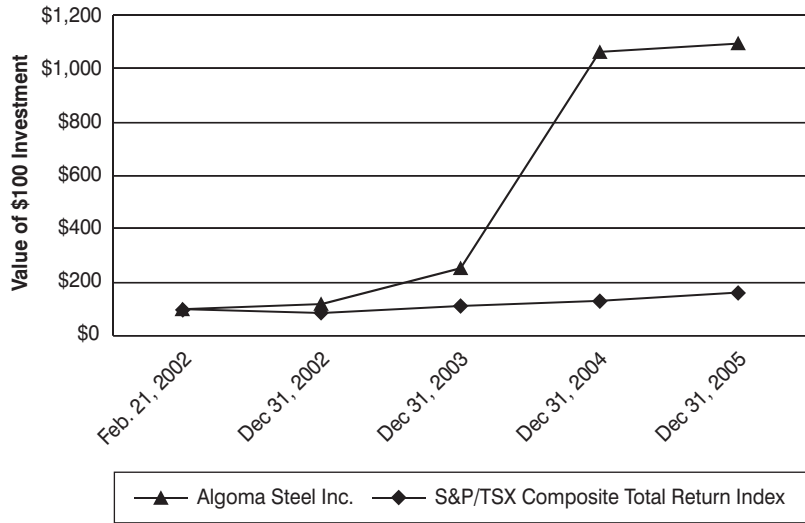
The required disclosure in respect of the Board of Directors as currently constituted and the corporate governance practices of the Corporation are set out in matrix form in Schedule "H" to this Circular. In addition, the Corporation is committed to maintaining the highest standards of corporate governance and has reviewed its approach to corporate governance in light of the recommended best practices contained in National Policy 58-201 — *Effective Corporate Governance* ("NP 58-201") and National Instrument 58-101 — *Disclosure of Corporate Governance Practices* ("NI 58-101").

## **COMMON SHARE PERFORMANCE**

On April 23, 2001, the Corporation obtained Court protection under CCAA. On January 29, 2002, Algoma's Plan of Arrangement and Reorganization (the "Plan") was implemented and the Corporation emerged from CCAA protection. Under the Plan, the Corporation's then existing Common Shares had no value and were cancelled and new Common Shares were issued and distributed to noteholders, employees and unsecured creditors. The new Common Shares began trading on the Toronto Stock Exchange on February 21, 2002.

The following graph compares the monthly total cumulative shareholder return for \$100 invested in the new Common Shares from February 21, 2002 to December 31, 2005 with the cumulative total return of the S&P / TSX Composite Total Return Index for the same period. The Corporation declared, on August 3, 2005, a one-time special dividend of \$6 per Common Share which was paid on August 31, 2005 to Shareholders of record on August 17, 2005. The total distribution to Shareholders from this special dividend was approximately \$240 million. No other dividends were declared on Common Shares of the Corporation during the period.

### PERFORMANCE GRAPH



	21-Feb-02	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05
Algoma	100	121.82	256.36	1,065.45	1,098.60
S&P/TSX Composite Index	100	90.62	114.84	131.47	163.18

## ADDITIONAL INFORMATION

Financial information for the financial year ended December 31, 2005 will be provided in the Corporation's comparative financial statements and management's discussion and analysis ("MD&A"). Securityholders who wish to be added to the mailing list for the annual and interim financial statements and MD&A should contact the Corporation at 705-945-2788.

The Corporation will provide to any person (without charge to security holders of the Corporation), upon request to the Vice President — Business Development and Corporate Secretary, 105 West Street, Sault Ste. Marie, Ontario P6A 7B4, one copy of:

- (i) the current Annual Information Form of the Corporation filed with the securities commissions or similar authorities in Canada, together with one copy of any document or the pertinent pages of any document incorporated by reference in the current Annual Information Form;
- (ii) the Corporation's most recently filed comparative annual financial statements, together with the accompanying report of the auditor and any interim financial statements of the Corporation that have been filed for any period after the date of the Corporation's most recently completed financial year;
- (iii) this Management Information Circular of the Corporation; and
- (iv) audited financial statements and MD&A.

The 2004 Annual Report (including the financial statements and MD&A), the Annual Information Form and other information relating to the Corporation are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The contents of this Management Information Circular and the sending thereof have been approved by the Board.

DATED this 20<sup>th</sup> day of February, 2006.



PAUL C. FINLEY  
Vice President — Business Development  
and Corporate Secretary

**SCHEDULE A**  
**STATEMENT OF SUPPORT**

**Statement of Support, Submitted by Paulson**

Shareholders should replace the current board with strong directors who will increase value in both the short and long term.

The current board has done a poor job representing shareholders' interests.

- Diluted shareholders by one-third before 2004 steel market upswing.
- Wasted time pursuing Stelco acquisition, competing with industry giants.
- Delayed sale of company while steel stocks plummeted, bringing shareholders no offers.
- Distributed part of excess capital in special dividend, least value-enhancing option with punitive tax consequences.

Distributing excess capital by exchanging a portion of shares for cash increases shareholder value.

- Reduces shares outstanding, raising expected pro forma EPS substantially based on consensus estimates.
- Returns excess capital to shareholders in tax efficient manner.
- Mix-and-match election means shareholders get more cash or stock depending on their preferences.

After the distribution, Algoma will have more than enough liquidity and capital resources for operating needs.

- Board will only distribute excess capital.
- Distribution will let company fund current expenditure program and meet pension and post-retirement obligations to employees.

Refinancing Algoma's public debt will lower the overall cost of capital, provide tax shield to earnings and increase shareholder value.

*The statement of support by Paulson & Co. Inc. ("Paulson") for its corporate resolutions includes certain forward-looking information with respect to Algoma Steel Inc. ("Algoma"), including its future business and operations, earnings, cash position and strategies, as well as its financial performance and conditions. Such statements can generally be identified by the use of forward-looking words such as a "may", "will", "would", "expect", "believe" or similar variations. The information is based on assumptions relating to the operations, earnings, costs of inputs, rates of return on pension assets consistent with recent past experience and prices for steel received by Algoma. Although Paulson & Co. Inc. believes that expectations reflected in forward-looking statements are from sources believed to be reliable or are reasonable, such statements involve risks and uncertainties, and actual results may differ from such information. As such, the forward-looking statements are not guarantees of future performance, and actual results may vary materially from the results. Factors that might cause Algoma's actual results to differ materially from those anticipated in forward-looking statements include, but are not limited to: (1) the sensitivity of the results of Algoma's operations to prevailing steel prices and the changes in the supply and cost of raw materials and energy (2) market demand for steel products; (3) competitive pressure on sales and pricing, including pressure from imports and substitute materials; (4) uncertainties surrounding the global economy, including excess world capacity for steel production; (5) foreign trade policy affecting steel imports or exports; (6) significant changes in government regulations affecting environmental compliance; (7) the cyclical nature of the domestic steel industry; (8) capital investments and their impact on performance; (9) Algoma's safety performance and (10) rates of return on pension assets. The reader is cautioned not to place undue reliance on forward-looking statements. For a discussion of such factors and risks, see the audited consolidated financial statements and "Management's Discussion and Analysis" contained in Algoma's Annual Report for the year ended December 31, 2004 and Algoma's Annual Information Form and other documents filed on [www.sedar.com](http://www.sedar.com). Paulson does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise.*

**SCHEDULE B**  
**RESOLUTION REMOVING DIRECTORS**

**BE IT RESOLVED THAT:**

1. Messrs. Steven Bowsher, Alexander Davidson, Benjamin Duster, Patrick Lavelle, James Lawson, Charles Masson and Francis Petro be removed as directors of Algoma Steel Inc.

**SCHEDULE C**  
**SPECIAL RESOLUTION AMENDING THE ARTICLES TO**  
**PROVIDE FOR NINE DIRECTORS ON THE BOARD OF DIRECTORS**

**BE IT RESOLVED THAT:**

1. the articles of incorporation of Algoma Steel Inc. be amended to provide that there be nine directors.

**SCHEDULE D**  
**RESOLUTION ELECTING DIRECTORS**

**BE IT RESOLVED THAT:**

1. Messrs. Trevor Eyton, Farokh Hakimi, Nicholas Tolerico, Michael Waldorf and John Hritz be elected as directors of Algoma Steel Inc. to hold office until the close of the first annual meeting of shareholders following their election.

**SCHEDULE E**  
**RESOLUTION RELATING TO THE NOTES**

**BE IT RESOLVED THAT:**

1. the board of directors of Algoma Steel Inc. (the “Corporation”) is hereby directed to consider, and if thought appropriate, to issue \$200 million of new notes not subject to mandatory payment in respect of the outstanding principal amount until a date no earlier than 2010.

**SCHEDULE F**  
**RESOLUTION RELATING TO THE RESTRUCTURING**

**BE IT RESOLVED THAT:**

1. the board of directors of Algoma Steel Inc. (the “Corporation”) is hereby directed to consider, and if thought appropriate, to place before the Corporation’s shareholders for their approval a transaction to distribute cash retained by the Corporation to shareholders on a tax efficient basis whereby shareholders may elect to receive, in each case subject to *pro rationing*, (i) cash at a price per common share representing a premium to the market price for the common shares, or (ii) common shares in the Corporation or its successor, provided that such cash component shall not be less than \$400 million or the maximum amount permitted by law if less than \$400 million.

**SCHEDULE G**  
**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 be 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**

### **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;

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;

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

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.

### **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.

### **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.

### **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**

### **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.

### **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.

### **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.

### **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.

### **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.

### **Secretary**

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

### **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.

### **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.

### **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.

### **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.

### **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.

**SCHEDULE H**  
**CORPORATE GOVERNANCE**

The following table describes the Corporation's governance practices. For convenience, these are organized by reference to the requirements set out in National Instrument 58-101 ("NI 58-101").

NI 58-101 Required Disclosure	Corporation Status *	Comments regarding the Corporation's Corporate Governance Practices
1. Board of Directors	Yes	<p>A majority of the Corporation's board of directors (the "Board"), seven of the 11 current directors, are independent. The independent directors are as follows: Messrs. Steven Bowsher, Alex Davidson, Benjamin Duster, Patrick Lavelle, James Lawson, Charles Masson and Francis Petro.</p> <p>The following directors are not independent: Messrs. John Kallio, Marie Kelly, Murray Nott and Denis Turcotte. The Board has determined that Messrs. Kallio, Nott and Turcotte are related by virtue of their employment with the Corporation and Ms. Kelly is related by virtue of her employment with the United Steelworkers of America.</p> <p>The following directors are presently a director of another reporting issuer: Alex Davidson (director of EPCOR Utilities Inc. and UE Waterheater Income Fund); Jim Lawson (director of Zargon Energy Trust); and Pat Lavelle (director of Arriscraft International Income Fund, Canadian Bank Note Company Limited, Macquarie Power Fund, Retrocom Mid-Market Real Estate Investment Trust, SR Telecom Inc., Tahera Diamond Corporation, UE Waterheater Income Fund and Westport Innovations Inc.).</p> <p>The independent directors meet without the non-independent directors on an as required basis. These meetings of the independent directors are generally held in conjunction with regularly scheduled Board meetings.</p> <p>The chairman of the Board, Mr. Benjamin Duster, is an independent director.</p> <p>The attendance record of each director for Board meetings is as follows:</p> <p>Steve Bowsher: 12 of 12 meetings  Alex Davidson: 8 of 9 meetings (director as of May 11, 2005)  Benjamin Duster: 12 of 12 meetings  John Kallio: 12 of 12 meetings  Marie Kelly: 11 of 12 meetings  Patrick Lavelle: 12 of 12 meetings  James Lawson: 10 of 12 meetings  Charles Masson: 10 of 12 meetings  Murray Nott: 12 of 12 meetings  Francis Petro: 12 of 12 meetings  Denis Turcotte: 12 of 12 meetings</p>

NI 58-101 Required Disclosure	Corporation Status *	Comments regarding the Corporation's Corporate Governance Practices
2. Board Mandate	Yes	The Board's written mandate is contained in Appendix A to the Corporation's Corporate Governance Policy. It is attached hereto as Appendix 1.
3. Position Descriptions	Yes	The Board has developed written descriptions for the chair of the Board and the chair of each Board committee. The Board and the Chief Executive Officer have developed a written position description for the Chief Executive Officer.
4. Orientation and Continuing Education	Yes	<p>Reports and other documentation relating to the Corporation's business and affairs are provided to new directors. A Corporate Governance Manual is provided for use by both new and current directors.</p> <p>Board meetings have been held at the Corporation's main plant site to give the directors additional insight into the Corporation's business and operations.</p> <p>Education sessions are held for directors during the year generally in conjunction with Board meetings. These sessions include topics related to the Corporation's business, the duties of directors and the effective operation of the Board. These sessions have been conducted by external legal counsel and other professionals.</p>
5. Ethical Business Conduct	Yes	The Corporation has adopted a Code of Business Conduct which is posted on the Corporation's website at <a href="http://www.algoma.com">www.algoma.com</a> . Procedures are in place to ensure compliance with the code at all levels of the Corporation, including the Board.
6. Nomination of Directors	Yes	<p>The Corporate Governance Committee is responsible for the nomination of directors. All of the members of the Corporate Governance Committee are independent directors.</p> <p>In determining candidates to be nominated to the Board, the Corporate Governance Committee first identifies the particular skill set required of a new director. This process takes into account the skills of incumbent directors, the efficient operation of the Board and the particular needs of the Corporation. Once a particular profile has been established, the Committee, with the assistance of external professionals and other Board members, compiles a list of candidates who are interviewed by the Committee and the Board. Following this process the Committee makes its recommendation to the Board.</p> <p>In addition to the nomination process, the Committee pays an oversight role in a number of areas including: corporate governance practices; Board and director assessment and performance; conflicts of interest and insider trading; composition of Board committees, director orientation and education.</p>

NI 58-101 Required Disclosure	Corporation Status *	Comments regarding the Corporation's Corporate Governance Practices
7. Compensation	Yes	<p>The Human Resources and Compensation Committee, composed entirely of independent directors, reviews and recommends to the Board for approval the remuneration of directors and senior management on an annual basis. The Committee utilizes the services of external compensation consultants from time to time. These consultants advise on the Corporation's compensation policies and provide comparator compensation data as required by the Committee.</p> <p>In 2005, the Corporation retained Hay Consulting to provide compensation information respecting the compensation of the Corporation's officers and directors. In addition to compensation matters, the Committee also plays a role in the following areas: the development policies and procedures for the selection of senior management; organizational structure; assessing the performance of senior management; succession planning; labour negotiations; and policies and specifics respecting the Corporation's employment agreements.</p>
8. Other Board Committees	Yes	<p>Other than the Audit Committee, Corporate Governance Committee and Human Resources and Compensation Committee, the Board also has a Health, Safety and Environment Committee, Strategic Planning Committee and a Special Committee. The members of these committees are described on pages 15-16 of this Management Information Circular.</p> <p>The Health, Safety and Environment Committee is responsible for ensuring that the Corporation's activities are carried out in a responsible manner compliant with all applicable laws and regulations with particular emphasis on the health and safety of the Corporation's workforce, the environmental impact of its operations and the integrity of its operating base. The Special Committee was established in late 2004 to oversee the Corporation's review of strategic alternatives. The Strategic Planning Committee is accountable to the Board for ensuring there is a process for developing and adjusting strategic thought and associated plans defining the strategic direction of the Corporation.</p>

NI 58-101 Required Disclosure	Corporation Status *	Comments regarding the Corporation's Corporate Governance Practices
9. Assessments	Yes	The Corporate Governance Committee is responsible for the assessment of the Board and its directors. An assessment of Board and director effectiveness by an independent consultant was completed in 2003. The Board continues to work with the independent consultant to improve Board effectiveness.

\* "Yes" indicates that the Corporation is generally aligned with the understood intent of the relevant NI 58-101 requirement.

"Partly" indicates that the Corporation is partially aligned with the understood intent of the relevant NI 58-101 requirement.

"No" indicates that the Corporation is not generally aligned with the understood intent of the relevant NI 58-101 requirement.

## Appendix 1 — Board Mandate

### DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The primary responsibilities of the board include:

- Choosing the President and Executive Officer, approving other key executive appointments and ensuring a succession plan;
- Ensuring that processes are in place for the recruitment, training and development of executives who exhibit the highest standards of integrity as well as competence;
- Overseeing management in the competent and ethical operation of Algoma Steel Inc.;
- Monitoring and assessing the performance of the President and Chief Executive Officer in setting compensation accordingly, and ensuring that an appropriate portion of compensation is tied to both the short and longer term performance of Algoma Steel Inc.;
- Advising management on significant issues;
- Overseeing the strategic planning process;
- Reviewing and approving significant corporate actions;
- Ensuring that systems and processes are in place to monitor the principal risks of the business;
- Ensuring a formal process for selecting and reviewing the performance of directors;
- Managing potential conflicts of interest;
- Selecting independent auditors and ensuring integrity and clarity of financial reporting;
- Monitoring the effectiveness of corporate practices; and
- Overseeing the process of disclosure to shareholders and to the public.

In performing its duties, it is recognized that the board may delegate certain of those duties to committees of the board, such as the audit committee, the human resources and compensation committee, the corporate governance committee, the health and safety and environment committee and the strategic planning committee. However, it is imperative that when the board takes into account the duties delegated to its various committees and the duties reserved to itself, the following specific duties are effectively undertaken:

- (a) Recommend candidates for appointment to the board of directors;
- (b) Appoint committees and appoint directors to subsidiary company boards;
- (c) Assess the effectiveness of the board committees and the directors in fulfilling their responsibilities;
- (d) Approve the position description for the President and Chief Executive Officer;
- (e) The appointment and succession of the President and Chief Executive Officer and monitoring the effectiveness of the President and Chief Executive Officer;
- (f) Establish President and Chief Executive Officer compensation;
- (g) Provide advice and counsel to the President and Chief Executive Officer in the execution of his or her duties;
- (h) Approve acceptance as an outside director on public or not-for-profit boards by the President and Chief Executive Officer;
- (i) Review President and Chief Executive Officer performance at least annually against agreed upon objectives;
- (j) Ensure that succession programs and plans are in place;

- (k) Approve certain matters relating to all employees, including the annual salary and incentive policy/program for employees, new benefit programs or material changes to existing programs and pension fund investment guidelines;
- (l) Ensure that there is a strategic planning process and approve Algoma Steel Inc.'s strategic plan;
- (m) Approve annual capital and operating budgets and treasury plans and monitor same collectively (and, where warranted, individually) against actual results and percentage completion reports;
- (n) Approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to Algoma Steel Inc.;
- (o) Approve material mergers, divestitures and acquisitions;
- (p) Monitor Algoma Steel Inc.'s progress towards its goals;
- (q) Take reasonable steps to ensure the implementation and integrity of Algoma Steel Inc.'s internal control and management information systems;
- (r) Monitor and review operational and financial results relative to budgets and/or plans;
- (s) Ensure management identifies the principal risks of Algoma Steel Inc.'s business and that management has implemented appropriate systems to manage these risks;
- (t) Approve annual financial statements, review quarterly financial results and approve release of all financial results;
- (u) Approve financings and changes in authorized capital;
- (v) Recommend the appointment of external auditors to Algoma Steel Inc.'s shareholders and approve their fees;
- (w) Approve banking resolutions and significant changes in banking relationships;
- (x) Approve Algoma Steel Inc.'s risk management plan including insurance, hedging, guarantees and derivatives;
- (y) Establish limits of spending authority for the President and Chief Executive Officer for expenditures not included in previously approved business plans;
- (z) Monitor litigation that may have a material impact on Algoma Steel Inc.;
- (aa) Establish significant policies and procedures by which Algoma Steel Inc. is operated and monitor compliance with those policies and procedures;
- (bb) Direct management to ensure that Algoma Steel Inc. operates at all times within applicable laws and regulations and ensure a code of ethical conduct is in place;
- (cc) Ensure Algoma Steel Inc. has in place effective communications processes with its shareholders and other key stakeholders;
- (dd) Ensure that the financial results of Algoma Steel Inc. are reported fairly and in accordance with generally accepted accounting principles;
- (ee) Ensure the timely reporting of any other developments that have a significant material impact on Algoma Steel Inc.;
- (ff) Report annually to the shareholders on the board's stewardship.

**SCHEDULE I**  
**PROPOSED TRANSACTIONS**

Algoma would incorporate a corporation (“Newco”) under the *Business Corporations Act* (Ontario) (“OBCA”). The authorized share capital of Newco would consist of an unlimited number of common shares and an unlimited number of preference shares. One common share would be issued to Algoma for a nominal amount.

Pursuant to a plan of arrangement (“Plan of Arrangement”), Newco would acquire all of the Algoma Common Shares from the Shareholders. In exchange for their Algoma Common Shares, Newco would pay to Shareholders a combination of common shares of Newco (“Newco Shares”) and notes of Newco (“Newco Notes”, together with the Newco Shares the “Purchase Price”). The aggregate principal amount of the Newco Notes would be \$415 million. The number of Newco Shares to be issued would be the number of Algoma Common Shares issued and outstanding less the quotient obtained when \$415 million (the principal amount of the Newco Notes) is divided by the Purchase Price per Algoma Common Share. The Purchase Price per Algoma Common Share (and the number of Newco Shares to be issued) would be determined at the time of the announcement of the Proposed Transactions. The Purchase Price per Algoma Common Share may differ from the trading price of an Algoma Common Share on the Toronto Stock Exchange at the time of the announcement. Under the Plan of Arrangement, each Shareholder would be entitled to elect to receive any combination of Newco Shares or Newco Notes, subject to *pro-rationing* so that the aggregate amounts to be paid by Newco to all Algoma Shareholders by way of Newco Shares and Newco Notes would be fixed to the amounts described above.

Under the Plan of Arrangement, Newco would agree to jointly elect pursuant to section 85 of the *Income Tax Act* (Canada) with those Shareholders who may wish to so elect in respect of the transfer of their Algoma Common Shares to Newco.

Newco would borrow approximately \$200 million on market terms from lenders who deal with Newco at arm’s length (the “Loan”). The Loan would bear interest at a commercially reasonable rate.

Immediately after Newco purchases the Algoma Common Shares, Newco and Algoma would amalgamate in a short-form vertical amalgamation to form Amalco. Amalco would repay the Newco Notes out of the cash reserves of Algoma prior to the amalgamation and the proceeds of the Loan, and the Newco Notes would be cancelled.

Implementation of the Plan of Arrangement would be subject to its approval by at least 66 $\frac{2}{3}$  percent of the votes cast by Shareholders represented at a special meeting of Shareholders. Implementation would also be subject to certain other conditions, including court and regulatory approvals.

Under the Plan of Arrangement, Shareholders would be entitled to exercise dissent rights, in which event they would be entitled to receive the fair value of their Algoma Common Shares from Algoma.







## **CAST YOUR BLUE PROXY TODAY — HERE'S HOW**

Your Board of Directors recommends that you act to preserve the long-term value of your investment in Algoma. If, after reading the proxy materials, you agree with your Board, which is acting in the best interests of all shareholders, it is crucial that you sign, date and return the enclosed **BLUE** proxy using any of the methods described on your form of proxy.

Please note that if you have mistakenly voted using the wrong proxy, you have every right to change your vote by simply signing, dating and mailing the enclosed **BLUE** proxy. This action will cancel all previous votes as it is the later dated proxy received that will count at the Meeting.

### **What material do I need to submit?**

If you are a shareholder, you only need to submit your **BLUE** proxy which accompanies this material. The **BLUE** proxy must be signed, dated and returned **using any of the methods described on the form of proxy.**

### **What is my deadline to vote?**

Your **BLUE** proxy must be voted by any one of the methods described on the form no later than 10:00 a.m. (Toronto time) on Monday, March 20, 2006. Whether you hold your shares directly or through a broker, it is particularly important that you return, as soon as possible, the executed **BLUE** proxy voted as recommended by your Board of Directors to ensure your vote is counted:

**AGAINST**     **the Removal Resolution;**  
**AGAINST**     **the Board Size Resolution;**  
**WITHHELD**   **in respect of the Paulson's Nominees Resolution;**  
**AGAINST**     **the Notes Resolution; and**  
**AGAINST**     **the Restructuring Resolution.**

### **Who do I call if I have any questions about the Algoma proxy or if I need help voting?**

If you have any questions about the information contained in this document or require assistance in completing your **BLUE** form, please contact Algoma's proxy solicitation agent at:

Georgeson  Shareholder

North American Toll Free Number: 1-866-532-9251

*Please visit our website for regular updates at [www.algoma.com](http://www.algoma.com)*