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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – issuer granted relief from certain comparative financial statement requirements in connection with its application of “fresh start” accounting following a plan of arrangement

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, s. 91(1)(b)

Securities Rules, B.C. Reg. 194/97, ss. 144(1)(b), 145(1)(b)

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUEBEC, NOVA SCOTIA, AND NEWFOUNDLAND AND LABRADOR

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND IN THE MATTER OF ALGOMA STEEL INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and Newfoundland and Labrador (the “Jurisdictions”) has received an application from Algoma Steel Inc. (the “Filer”) for a decision pursuant to the securities legislation of the Jurisdictions (the “Legislation”) that certain requirements contained in the Legislation requiring the Filer to file its comparative interim financial statements for the fiscal periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002 and 2003, respectively, and to file its comparative annual statements for the years ending December 31, 2002 and 2003, respectively, shall not apply to the Filer;

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Ontario Securities Commission is the Principal Regulator for this application;

AND WHEREAS the Filer has represented to each Decision Maker that:

1. The Filer is organized under the laws of the Province of Ontario, and is a reporting issuer in each of the Jurisdictions that provides for a reporting issuer

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regime and is not on the list of defaulting reporting issuers maintained by the Jurisdictions.

2. On April 23, 2001, the Filer filed for protection under the *Companies' Creditors Arrangement Act* (Canada). An order was granted on such date by the Superior Court of Justice in Bankruptcy and Insolvency (Commercial List) of Ontario (the "Court") respecting, among other things, a stay of all actions, suits and proceedings, and the appointment of Ernst & Young Inc. as monitor.
3. The Filer's proposed plan of arrangement and reorganization pursuant to the *Companies' Creditors Arrangement Act* (Canada) and Section 186 of the *Business Corporations Act* (Ontario) was filed with the Court in October, 2001, a second amended and restated plan was filed with the Court in November, 2001; and a third amended and restated plan (the "Plan") was filed with the Court on December 10, 2001. The Plan was accepted by the Filer's creditors on December 17, 2001. The Plan was subsequently sanctioned by the Court on December 19, 2001, and was effective as of January 29, 2002.
4. Pursuant to the Plan, the Filer cancelled all of its then issued and outstanding shares, and issued 19 million new common shares, of which 15 million were issued to former holders of the Filer's 12 3/8% First Mortgage Notes ("Notes"), approximately four million were issued to employees of the Filer in accordance with an option granted pursuant to the Plan, and approximately one million were issued to certain unsecured creditors of the Filer.
5. Pursuant to the Plan, holders of the Notes received, in addition to common shares, their pro rata portion of U.S.\$125 million in aggregate principal amount of newly issued 11% secured notes due 2009 of the Filer and of U.S.\$62.5 million in aggregate principal amount 1% secured convertible notes due 2030 of the Filer. All of the U.S.\$349 million in aggregate principal amount of Notes that were outstanding prior to the implementation of the Plan, together with all accrued and unpaid interest on the Notes, were cancelled.
6. The Filer has also entered into new collective bargaining agreements with the United Steelworkers of America, and has entered into arrangements to restructure its pension plan liabilities.
7. Approximately \$333 million of secured indebtedness of the Filer was extinguished upon completion of the Plan. The Filer's pension obligations were also significantly reduced. In addition, as a result of the implementation of the Plan, except perhaps for a few exceptions, former holders of shares of the Filer no longer hold any shares therein, and former holders of the Notes now hold approximately 75% of the common shares of the Filer.

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8. The new common shares of the Filer were listed and posted for trading on The Toronto Stock Exchange on February 21, 2002.
9. Failure to present the financial information of the Filer for the periods before and after the reorganization on a segregated columnar basis could subject the financial statements of the Filer to misinterpretation by investors.
10. The Filer accounted for the implementation of the Plan as at January 31, 2002 on a “fresh start” basis in accordance with the guidelines set forth by the Canadian Institute of Chartered Accountants (the “CICA”), which contemplates that figures for a prior period may be excluded from a company’s financial statements where that company has undergone a financial reorganization resulting in a substantial realignment of its non-equity and equity interests.
11. The balance sheet required to be included in the interim financial statements for the first, second and third quarters of 2002 and the balance sheet required to be included in the annual financial statements for the year ending December 31, 2002 of the Filer are not and will not be comparable to the balance sheet as at December 31, 2001 due to the reorganization of the Filer pursuant to the Plan.
12. The Filer will prepare and file with the Jurisdictions interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, which will be comprised respectively of (a) a balance sheet as at March 31, June 30 and September 30, 2002, presented on a comparative basis with a “fresh start” opening balance sheet as at January 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (b) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the two, five and eight month periods (from February 1, 2002) ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant three month period ending on such dates, and (y) under the pre-reorganization results column (i) the one month period ended January 31, 2002 and the relevant year-to-date period of 2001, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant comparative three month period of 2001.
13. The Filer will prepare and file with the Jurisdictions annual financial statements for the year ending December 31, 2002, which will be comprised of

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(a) a balance sheet as at December 31, 2002, presented on a comparative basis with a “fresh start” opening balance sheet as at January 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (b) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results as follows: (x) under the post-reorganization column the eleven month period (from February 1, 2002) ending December 31, 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002 and the relevant comparative period of 2001.

14. The Filer will provide information relating to the Filer’s financial reorganization pursuant to the Plan both in its interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, and in its annual financial statements for the year ending December 31, 2002, as well as in its management’s discussion and analysis of financial condition for the corresponding periods.
15. The Filer will prepare and file with the Jurisdictions interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2003, which will be comprised respectively of (a) a balance sheet as at March 31, June 30 and September 30, 2003, presented on a comparative basis with the Filer’s balance sheet as at December 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (b) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the three, six and nine month periods ending March 31, June 30 and September 30, 2003, (ii) the two, five and eight month periods (from February 1, 2002) ended March 31, June 30 and September 30, 2002, and (iii) in respect of the periods ending June 30 and September 30, 2003, the relevant three month period ending on such dates and the relevant comparative three month period of 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002.
16. The Filer will prepare and file with the Jurisdictions annual financial statements for the year ending December 31, 2003, which will be comprised of (a) a balance sheet as at December 31, 2003, presented on a comparative basis with the Filer’s balance sheet as at December 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (b) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results as follows: (x) under the post-reorganization column (i) the year ending December 31, 2003, and (ii) the eleven month period (from February 1, 2002) ended

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December 31, 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002.

AND WHEREAS pursuant to the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each Decision Maker is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that the Filer is exempt from the applicable requirements of the Legislation requiring the Filer to prepare and file comparative interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002 and 2003, respectively, provided that:

- (a) the Filer prepares and files interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, which will be comprised respectively of (1) a balance sheet as at March 31, June 30 and September 30, 2002, presented in the form provided by the further decision below, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the two, five and eight month periods (from February 1, 2002) ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant three month period ending on such dates, and (y) under the pre-reorganization results column (i) the one month period ended January 31, 2002 and the relevant year-to-date period of 2001, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant comparative three month period of 2001; and
- (b) the Filer prepares and files interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2003, which will be comprised respectively of (1) a balance sheet as at March 31, June 30 and September 30, 2003, presented in the form provided by the further decision below, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the three, six and nine month periods ending March 31, June 30 and September 30, 2003, (ii) the two, five and eight month periods (from February 1, 2002) ended

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March 31, June 30 and September 30, 2002, and (iii) in respect of the periods ending June 30 and September 30, 2003, the relevant three month period ending on such dates and the relevant comparative three month period of 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002.

DATED this 30th day of May, 2002

Harold P. Hands
Commissioner

Robert W. Korthals
Commissioner

THE FURTHER DECISION of the Decision Makers pursuant to the Legislation is that the Filer is exempt from the applicable requirements of the Legislation requiring the Filer (i) to prepare and file comparative interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002 and 2003, respectively; and (ii) prepare and file comparative annual financial statements for the years ending December 31, 2002 and 2003, respectively, provided that:

- (a) the Filer prepares and files interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, which will be comprised respectively of (1) a balance sheet as at March 31, June 30 and September 30, 2002, presented on a comparative basis with a “fresh start” opening balance sheet as at January 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the two, five and eight month periods (from February 1, 2002) ending (or ended, as the case may be) March 31, June 30 and September 30, 2002, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant three month period ending on such dates, and (y) under the pre-reorganization results column (i) the one month period ended January 31, 2002 and the relevant year-to-date period of 2001, and (ii) in respect of the periods ending June 30 and September 30, 2002, the relevant comparative three month period of 2001;
- (b) the Filer prepares and files annual financial statements for the year ending December 31, 2002, which will be comprised of (1) a balance sheet as at December 31, 2002, presented on a comparative basis with a “fresh start” opening balance sheet as at January 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section

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1625, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results as follows: (x) under the post-reorganization column the eleven month period (from February 1, 2002) ending December 31, 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002 and the relevant comparative period of 2001;

- (c) the Filer provides information relating to the Filer's financial reorganization pursuant to the Plan in its financial statements and management's discussion and analysis of financial condition for the periods ending (or ended, as the case may be) March 31, June 30, September 30 and December 31, 2002;
- (d) the Filer prepares and files interim financial statements for the periods ending (or ended, as the case may be) March 31, June 30 and September 30, 2003, which will be comprised respectively of (1) a balance sheet as at March 31, June 30 and September 30, 2003, presented on a comparative basis with the Filer's balance sheet as at December 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results for the relevant period as follows: (x) under the post-reorganization column (i) the three, six and nine month periods ending March 31, June 30 and September 30, 2003, (ii) the two, five and eight month periods (from February 1, 2002) ended March 31, June 30 and September 30, 2002, and (iii) in respect of the periods ending June 30 and September 30, 2003, the relevant three month period ending on such dates and the relevant comparative three month period of 2002, and (y) under the pre-reorganization results column, the one month period ended January 31, 2002; and
- (e) the Filer prepares and files annual financial statements for the year ending December 31, 2003, which will be comprised of (1) a balance sheet as at December 31, 2003, presented on a comparative basis with the Filer's balance sheet as at December 31, 2002 with note disclosure for the disclosure items specified by CICA Handbook Section 1625, and (2) comparative statements of income, retained earnings and cash flow presented on a columnar basis to reflect pre- and post-reorganization results as follows: (x) under the post-reorganization column (i) the year ending December 31, 2003, and (ii) the eleven month period (from February 1, 2002) ended December 31, 2002, and (y) under the pre-

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reorganization results column, the one month period ended January 31, 2002.

DATED this 30th day of May, 2002

John Hughes
Manager, Continuous Disclosure