Unaudited Interim Condensed Consolidated Financial Statements

Stelco Inc.

Three and Nine Months Ended September 30, 2017

Stelco Inc.

Interim condensed consolidated statements of profit or loss

(In millions of Canadian dollars)
(unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	$	$	$	$
Operations				
Revenue from sale of goods	**336**	373	**1,149**	989
Commission income	**—**	—	**—**	1
Total revenue	**336**	373	**1,149**	990
Cost of goods sold	**324**	322	**1,026**	963
Gross profit	**12**	51	**123**	27
Selling, general and administrative expenses	**12**	7	**62**	19
Operating profit (loss)	**—**	44	**61**	8
Finance costs (note 9)	**12**	54	**133**	136
Finance income	**—**	—	**(1)**	—
Share of loss of joint ventures	**—**	—	**1**	—
Restructuring costs	**1**	9	**33**	26
Gain on emergence from CCAA (note 13)	**—**	—	**(3,665)**	—
Other income	**—**	(1)	**(3)**	(1)
Income (loss) before income taxes	**(13)**	(18)	**3,563**	(153)
Income tax expense (note 10)	**—**	—	**—**	—
Income (loss) for the period	**(13)**	(18)	**3,563**	(153)

See accompanying notes

Stelco Inc.

Interim condensed consolidated statements of comprehensive income (loss)

(In millions of Canadian dollars)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**
	$	$	$	$
Income (loss) for the period	**(13)**	(18)	**3,563**	(153)
Other comprehensive loss – *Items that will not subsequently be reclassified to profit or loss*				
Remeasurement losses on pension benefit obligations	**—**	18	**(53)**	(251)
Other comprehensive income (loss) for the period, net of income taxes	**—**	18	**(53)**	(251)
Total comprehensive income (loss) for the period, net of income taxes	**(13)**	—	**3,510**	(404)

See accompanying notes

Stelco Inc.

Interim condensed consolidated statements of financial position

(In millions of Canadian dollars)
(unaudited)

	September 30, 2017 $	December 31, 2016 $
Assets		
Current		
Cash and cash equivalents	**22**	188
Restricted cash	**19**	9
Trade and other receivables	**117**	237
Inventories	**367**	314
Prepaid expenses	**17**	47
Total current assets	**542**	795
Property, plant and equipment, net (note 4)	**303**	378
Investment property	**—**	21
Investment in joint ventures	**5**	6
Total non-current assets	**308**	405
Total assets	**850**	1,200
Liabilities and equity (deficiency)		
Current		
Trade and other payables	**168**	457
Current portion of long-term debt (note 5)	**—**	1,822
Other liabilities (note 7)	**23**	1,172
Employee benefit commitment (note 8)	**41**	—
Total current liabilities	**232**	3,451
Long-term debt (note 5)	**11**	—
Provisions	**5**	5
Pension and other post-employment benefits	**—**	1,030
Other liabilities (note 7)	**31**	1
Employee benefit commitment (note 8)	**278**	—
Total non-current liabilities	**325**	1,036
Total liabilities	**557**	4,487
Equity (deficiency)		
Common shares	**2,325**	2,325
Contributed surplus	**500**	430
Retained deficit	**(2,532)**	(6,042)
Total equity (deficiency)	**293**	(3,287)
Total liabilities and equity	**850**	1,200

See accompanying notes

On behalf of the Board of Directors

Alan Kestenbaum, Director

Michael McQuade, Director

Stelco Inc.

Interim condensed consolidated statements of cash flows

(In millions of Canadian dollars)
(unaudited)

	Nine Months Ended	
	September 30, 2017	**September 30, 2016**
	$	$
Operating activities		
Income (loss) for the period	**3,563**	(153)
Adjustments to reconcile income (loss) to cash provided by (used in) operating activities:		
Depreciation	**19**	22
Interest expense and foreign exchange	**107**	134
Share of loss of joint ventures	**1**	—
Provision on pension and other post-employment benefits	**26**	36
Employee benefit commitment	**(6)**	—
Payments to creditors under CCAA (note 13)	**(237)**	—
Gain on emergence from CCAA (note 13)	**(3,665)**	—
Changes in non-cash working capital balances related to operations:		
Trade and other receivables	**21**	(2)
Inventories	**(53)**	18
Prepaid expenses	**30**	5
Trade and other payables	**84**	12
Other liabilities	**5**	(3)
	87	30
Cash provided by (used in) operating activities	**(105)**	69
Investing activities		
Purchases of property, plant and equipment	**(22)**	(10)
Project costs	**—**	(2)
Restricted cash	**(10)**	1
Cash used in investing activities	**(32)**	(11)
Financing activities		
Repayment of long-term debt	**(193)**	—
Proceeds of long-term debt	**94**	—
Proceeds from owner's contribution	**70**	—
Cash used in financing activities	**(29)**	—
Net (decrease) increase in cash and cash equivalents	**(166)**	58
Cash and cash equivalents, beginning of period	**188**	162
Cash and cash equivalents, end of period	**22**	220

See accompanying notes

Stelco Inc.

Interim condensed consolidated statements of changes in equity (deficiency)

(In millions of Canadian dollars except shares)
(unaudited)

	Number of common shares	Amount of common shares $	Contributed surplus $	Retained deficit $	Total equity (deficiency) $
At December 31, 2015	345	2,325	430	(5,866)	(3,111)
Loss for the period	—	—	—	(153)	(153)
Other comprehensive loss	—	—	—	(251)	(251)
Total comprehensive loss	—	—	—	(404)	(404)
At September 30, 2016	**345**	**2,325**	**430**	**(6,270)**	**(3,515)**

	Number of common shares	Amount of common shares $	Contributed surplus $	Retained deficit $	Total equity (deficiency) $
At December 31, 2016	345	2,325	430	(6,042)	(3,287)
Net income for the period	—	—	—	3,563	3,563
Other comprehensive loss	—	—	—	(53)	(53)
Total comprehensive income	—	—	—	3,510	3,510
Equity contribution from owners	—	—	70	—	70
At September 30, 2017	**345**	**2,325**	**500**	**(2,532)**	**293**

See accompanying notes

Notes to interim condensed consolidated financial statements

(Expressed in millions of Canadian dollars except where otherwise indicated)
(unaudited)

September 30, 2017 and 2016

1. Corporate information

Business description

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) ("Stelco" or the "Company") is principally engaged in the production and selling of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produce a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America. Stelco is a wholly owned subsidiary of Bedrock Industries B.V. and it is a private company incorporated under the laws of the federal government of Canada, with its head office located at 386 Wilcox Street, Hamilton, Ontario. Bedrock Industries B.V. is indirectly wholly-owned by Bedrock Industries L.P. The principal limited partners of Bedrock Industries L.P. are LG Bedrock Holdings LP, a Delaware limited partnership (''LG Bedrock''); and AK Bedrock LLC, a Delaware limited liability company wholly owned by Alan Kestenbaum. The General Partner of Bedrock is Bedrock Industries GP LLC, a Delaware limited liability company whose sole member is LG Bedrock. LG Bedrock's general partner is LG Bedrock Holdings GP LLC, a Delaware limited liability company (the ''LG GP'').

CCAA history

On September 16, 2014, Stelco applied for relief from its creditors pursuant to Canada's *Companies' Creditors Arrangement Act* ("CCAA"). Ernst & Young Inc. was appointed by the court as the Monitor ("Monitor"). As a consequence of the CCAA proceedings, the Company was no longer determined to be a subsidiary of U. S. Steel. On April 2, 2015, the Ontario Superior Court of Justice (the "Court") issued an order approving a sale and restructuring/recapitalization process for Stelco to market Stelco's business and assets to potential purchasers or investors. More than 100 strategic and financial parties were contacted and a number of parties submitted bids or proposals. None of the bids or proposals received provided an overall solution for Stelco that resulted in an executable transaction. This effort was the first of two thorough attempts to identify an executable transaction.

On September 15, 2015, the Court directed Stelco's key stakeholders to attend a mediation to address the feasibility of a comprehensive agreement among the parties. The mediation lasted approximately one week and, ultimately, no agreement was reached between the parties. As a result, on October 9, 2015, the Court granted an order authorizing Stelco to discontinue the sale and restructuring/recapitalization process.

In early December 2015, discussions with each of the significant stakeholders were held regarding a further sale and investment solicitation process. On January 12, 2016, the Court issued an order approving the sale and investment solicitation process for Stelco to market its business and assets for either sale or recapitalization. By the end of July 2016, the proposal from Bedrock Industries L.P. and Bedrock Industries Canada LLC (together "Bedrock") emerged as the most promising bid.

On December 9, 2016, Stelco entered into a CCAA Acquisition and Plan Sponsor Agreement (the "PSA") with Bedrock, which was authorized by the Court on December 15, 2016. The PSA allowed Stelco to work with Bedrock towards developing a plan of compromise, arrangement and reorganization (the "Plan") that would transfer ownership of Stelco to Bedrock, and would result in the emergence of a restructured Stelco that would continue with substantially all of its producing assets and operations.

On March 15, 2017, the Court issued an order, which among other things, authorized and accepted the filing of the Plan. The Plan was developed generally in accordance with the key terms of the transaction outlined in the PSA, and included agreements with a variety of stakeholders in respect of Stelco assets and real property, environmental matters, labour matters, other post-employment benefits and pension matters. After incorporation of amendments to the Plan from further negotiations, on June 9, 2017, the Court sanctioned and approved the Plan.

Pursuant to the above, on June 30, 2017, Bedrock Industries L.P. indirectly acquired substantially all of Stelco's operating assets and business on a going concern basis through acquisition of all of the outstanding shares of Stelco.

1. Corporate information (continued)

On November 10, 2017 Stelco Holdings Inc. acquired all of the issued and outstanding shares of Stelco Inc., resulting in it becoming a wholly owned subsidiary of Stelco Holdings Inc. (note 15).

These interim condensed consolidated financial statements of Stelco for the three and nine months ended September 30, 2017 were authorized for issue in accordance with a resolution of the directors on November 13, 2017.

2. Basis of presentation

The interim condensed consolidated financial statements have been prepared by management in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the periods ended December 31, 2016, 2015 and 2014 ("2016 Annual Financial Statements").

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's 2016 Annual Financial Statements.

3. New accounting pronouncements

Standards and amendments issued but not yet effective up to the date of issuance of these interim condensed consolidated financial statements are described below. The following discussion is of the standards, amendments and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

IFRS 9, *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard contains requirements in the following areas: classification and measurement; impairment; hedge accounting and de-recognition. The actual impact of adopting IFRS 9 on the Company's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to the reporting of financial instruments and these changes are not yet complete. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 9.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 was issued in May 2014 and additionally clarified in April 2016. It establishes a five-step model to account for revenue arising from contracts with customers and outlines two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 15 and expects to apply the modified retrospective application method.

3. New accounting pronouncements (continued)

IFRS 16, *Leases ("IFRS 16")*

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, Leases; IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 16.

IFRIC 23*, Uncertainty over Income Tax Treatments ("IFRIC 23")*

In June 2017, the IASB issued IFRIC 23 to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019 and the Company is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

4. Property, plant and equipment

a. Acquisitions and disposals

On June 30, 2017, in connection with the Company's emergence from CCAA, land and buildings with a carrying amount of $99 were sold to Legacy Lands Limited Partnership and leased back by Stelco. The lease of land was determined to be an operating lease and the lease of the building was determined to be a finance lease. As at June 30, 2017 the finance lease classification for the building resulted in $22 being recorded within property, plant and equipment. The carrying value of the building under finance lease remained at $22 as at September 30, 2017. For the three and nine months ended September 30, 2017, additions to property plant and equipment were $11 and $22, respectively (September 30, 2016 - $1 and $10).

b. Assets held under finance leases

The Company leases equipment and buildings under finance lease arrangements. As at September 30, 2017, the net carrying amount of the leased equipment and building was $23 (December 31, 2016 - $2).

(Expressed in millions of Canadian dollars except where otherwise indicated)

September 30, 2017 and 2016

5. Long-term debt

Interest-bearing loans and borrowings

	Weighted average interest rate	Maturity	September 30, 2017	December 31, 2016
	%		$	$
Current interest-bearing loans and borrowings				
Province of Ontario note	1.00	31-Mar-16	—	150
USS secured revolving loan	3.35	11-May-25	—	96
USS unsecured revolving loan	2.37	11-May-25	—	157
USS term loan	9.03	31-Oct-37	—	1,419
Total current interest-bearing loans and borrowings			—	1,822
Non-current interest-bearing loans and borrowings				
Asset-based lending facility	3.95	30-Jun-22	—	—
Province advance	2.00	29-Jun-20	**11**	—
Total non-current interest-bearing loans and borrowings			**11**	—
Total interest-bearing loans and borrowings			**11**	1,822

Province of Ontario note

Stelco was provided with $150 on March 31, 2006 from the Province of Ontario (the "Province Note") in connection with the restructuring of the pension plan funding arrangements as contemplated by the CCAA. The Province Note was unsecured and repayable on December 31, 2015, with an automatic extension to March 31, 2016 per the terms of the agreement in the event that the principle amount remained outstanding. The Province Note, which was past due as at December 31, 2016, was subject to an interest rate of 1% per annum with an effective rate based on its recognition date fair value of 12%. As a result of Stelco's CCAA filing in 2014, the loan was considered to be in default, and the discount was fully accreted to record the loan at its face value of $150. The loan continued to accrue interest at 1% while the Company was under CCAA, and therefore the 1% contractual interest was recognized through June 30, 2017. Upon emergence from CCAA on June 30, 2017, the Province Note was extinguished (refer to note 13).

USS revolving credit agreement

In May 2010, Stelco entered into an unsecured revolving credit facility where the Company could draw an aggregate amount of US$350 at any one time. Through an amendment in July 2012, this aggregate amount was increased to US$500 and through a second amendment in January 2013, this aggregate amount was further increased to US$600. Further amendments in 2013 secured certain obligations owing by Stelco to USS under the facility. Under the terms of the revolving credit agreement, the outstanding balance must be paid by the maturity date; however, payments on an outstanding balance can be made prior to this. Draws on the revolver are subject to interest from the date of the advance until the date on which the advance is paid in full, at the safe-harbour Applicable Federal Rate as prescribed by the Internal Revenue Service. Interest was payable upon the second anniversary date of the loan and biennially thereafter. Upon emergence from CCAA on June 30, 2017, the USS revolving credit agreement was extinguished (refer to note 13).

5. Long-term debt (continued)

USS term loan

In October 2007, Stelco entered into a term loan for an amount of $1,000 with a maturity date of October 31, 2037. Through an amendment in December 2007, the term loan amount increased to $1,500. Interest on the term loan accrued daily and compounded semi-annually at an interest rate of 9.03% per year. Interest was payable on the last business day of the year on the second anniversary after the year in which it was accrued. Upon emergence from CCAA on June 30, 2017, the USS term loan was extinguished (refer to note 13).

Event of default under revolving credit facility and term loan with USS

The CCAA filing on September 16, 2014 was considered to be an event of default under the USS term loan facility and revolving credit facility, which resulted in the loan balances and any accrued and unpaid interest to be due on demand. The Company has presented these obligations as current as at December 31, 2016. The loans continued to accrue interest while the Company was under CCAA at the rates stipulated within the agreements as noted above.

Asset-based lending (“ABL”) facility

In connection with the restructuring of Stelco as further described in note 13, the Company entered into an ABL revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375. The interest on Canadian/US dollar denominated funds is the Canadian/US prime rate plus 1% – 1.5%, depending on the amount that has been drawn under the facility, and is payable monthly. However, the Company also has the option to index the interest rate to CDOR/LIBOR plus a margin of 2% – 2.5%, and may elect this in the event that it results in a lower rate of interest on its draws under the revolver. Additionally, the Company is subject to payment of an unused line fee ranging from 0.25% – 0.375% on the unused portion of the revolver, depending on the amount undrawn, and is payable monthly. The Company can obtain letters of credit under the facility at a rate of 2% – 2.5%. The Company has letters of credit outstanding as at September 30, 2017 in the amount of $68. The revolver matures on June 30, 2022. As at June 30, 2017, the Company had $68 outstanding under the revolver and during the three months ended September 30, 2017 obtained an additional $15 under this facility. The Company repaid the entire $83 and as at September 30, 2017, the Company had a $nil outstanding balance under the ABL facility as it had repaid all amounts previously drawn under the facility.

Province advance

On June 30, 2017, Stelco entered into a secured credit agreement with the Province of Ontario (the “Province Advance”) in connection with the funding of future pension and OPEB commitments. The Province Advance permits Stelco to borrow up to $22, comprising up to $10.5 (the “First Advance”) on June 30, 2017 and up to $2.875 on each of June 30, 2018, October 1, 2018, January 1, 2019 and April 1, 2019 (the “Second Advances”). The First Advance is due on June 29, 2020, and the Second Advances are due on June 29, 2021. The Province Advance is subject to an interest rate of the Province’s cost of funds for a four-year non-amortizing bond as at June 30, 2017 plus 1%. Interest is compounded semi-annually and payable on the maturity dates of the First Advance and Second Advances, respectively. On June 30, 2017, $10.5 was advanced under this facility and this balance remained outstanding at September 30, 2017.

6. Financial assets and financial liabilities

Financial assets

Financial assets comprise cash and cash equivalents, restricted cash as well as trade and other receivables.

Financial liabilities

Financial liabilities comprise trade and other payables, interest-bearing loans and borrowings, finance lease obligations as well as the employee benefit commitment.

The Company’s interest-bearing loans and borrowings and employee benefit commitment are measured at amortized cost using the effective interest method.

(Expressed in millions of Canadian dollars except where otherwise indicated)

6. Financial assets and financial liabilities (continued)

The fair values of cash and cash equivalents, restricted cash, trade and other receivables as well as trade and other payables approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the finance lease liability is estimated by discounting the future contractual cash flows at the cost of borrowing to the Company, which approximates its carrying value.

Derivative financial instruments

On July 28, 2017, the Company entered into foreign currency forward contracts to manage exposure to fluctuations in US dollar denominated revenue. Under the terms of the derivative contracts, the Company agreed to sell an aggregate of up to $45 in US dollar calls and Canadian dollar puts and purchase up to $90 in US dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018 at a CAD/USD foreign exchange rate of $1.2101. The Company has not entered into the foreign currency forward contracts for trading or speculative purposes and has elected to not apply hedge accounting. The derivative financial instruments are recognized in the consolidated financial statements at fair value with changes in fair value recognized in the consolidated statements of profit or loss. Fair value is determined using quoted forward exchange rates (Level 2) as at the financial reporting period end dates.

The derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. As at September 30, 2017, the foreign exchange forward contracts are in a net liability position of $1 which is recorded in trade and other payables on the consolidated statements of financial position, with the corresponding change in fair market value adjustment recorded in finance costs on the statements of profit or loss for the three and nine months ended September 30, 2017.

7. Other liabilities

Other liabilities comprise the following:

	September 30, 2017	**December 31, 2016**
	$	$
Interest payable	**—**	871
Finance lease obligation	**23**	1
Salaries and benefits payable	**29**	20
Pension and other post-employment benefits	**—**	281
Other	**2**	—
Total other financial liabilities	**54**	1,173
Total current other financial liabilities	**23**	1,172
Total non-current other financial liabilities	**31**	1

(Expressed in millions of Canadian dollars except where otherwise indicated)

8. Employee benefit commitment

	September 30, 2017 $	December 31, 2016 $
Employee benefit commitment	**319**	—
Total non-current	**278**	—
Total current	**41**	—

The employee benefit commitment resulted from the emergence from CCAA on June 30, 2017. This financial liability was initially recorded at its fair value of $317 at June 30, 2017, which is measured based on unobservable Level 3 inputs, using a discounted cash flow analysis of expected cash flows to be paid in future periods to the Pension and OPEB trusts that were established upon the Company's emergence from CCAA. These payments consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of the Company's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of senior unsecured debt for companies in the same sector that are of a similar size. The rate used to discount expected payments based on projected operational profitability is consistent with the Company's anticipated internal rate of return. The measurement of fair value is classified within Level 3 of the fair value hierarchy. The employee benefit commitment has been subsequently accounted for at amortized cost using the effective interest method using an effective interest rate of 11.04%. A liability of $319 has been recognized as at September 30, 2017.

The fair value of the employee benefit commitment is estimated by discounting the future estimated cash flows at the noted discount rates, which approximates its carrying value.

9. Finance costs

The following table summarizes the main components of finance cost:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017 $	2016 $	2017 $	2016 $
Foreign exchange loss (gain)	**1**	3	**6**	(13)
Interest on loans and borrowings	**2**	50	**108**	148
Restructuring finance costs	**—**	—	**9**	—
Accretion	**8**	—	**8**	—
Other	**1**	1	**2**	1
Total finance costs	**12**	54	**133**	136

(Expressed in millions of Canadian dollars except where otherwise indicated)

10. Income taxes

The major components of income tax expense for the nine months ended September 30 are as follows:

	2017 $	2016 $
Deferred income tax:		
Origination of temporary differences	**76**	(51
Non-recognition of deferred tax assets	**(766**	5
Income tax expense reported in the statement of profit or loss	**–**	–

Reconciliation of effective tax rate for the nine months ended September 30:

	2017 $	2016 $
Income (loss) before income taxes	**3,56**	(215
Combined Canadian federal and provincial income tax rate	**25%**	25%
Income tax expense (recovery) based on statutory rate	**89**	(54
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:		
Permanent differences:		
Debt forgiveness	**48**	–
Restructuring gain	**(706**	–
Other	**(1**	–
Environmental	**(20**	–
Settlement of debt	**7**	–
Non-deductible interest	**4**	
Non-recognition of or reversal of deferred tax assets	**(766**	5
Total income tax expense	**–**	–

(Expressed in millions of Canadian dollars except where otherwise indicated)

September 30, 2017 and 2016

10. Income taxes (continued)

Deferred tax

Deferred tax relates to the following as at:

	September 30, 2017 $	**September 30, 2016** $	**December 31, 2015** $
Non-capital and capital loss carry-forwards	**228**	841	814
Plant and equipment	**—**	186	182
Provisions	**2**	1	1
Deductible SRED expenditures	**9**	9	9
Pension and other post-employment benefits	**—**	349	272
Employee benefit commitment	**78**	—	—
Compound interest	**—**	36	28
Province of Ontario note	**—**	28	28
Unrealized foreign exchange	**—**	13	9
Impairment provision of investment in subsidiaries	**2**	2	2
Land	**—**	3	4
Land lease	**1**	—	—
Deferred tax assets not recognized	**(315)**	(1,462)	(1,344)
Deferred tax asset	**5**	6	5
Investment property	**—**	(5)	(5)
Plant and equipment	**(4)**	—	—
Inventories	**(1)**	—	—
Other	**—**	(1)	—
Deferred tax liability	**(5)**	(6)	(5)
Net deferred tax asset (liability)	**—**	—	—

(Expressed in millions of Canadian dollars except where otherwise indicated)

10. Income taxes (continued)

Reconciliation of net deferred tax asset (liability) as at:

	September 30, 2017	**Movement**	**September 30, 2016**	**Movement**	**December 31, 2015**
	$	$	$	$	$
Non-capital and capital loss carry-forwards	**22[illegible]**	(613[illegible]	84[illegible]	2[illegible]	81[illegible]
Plant and equipment	**—**	(186[illegible]	18[illegible]	[illegible]	18[illegible]
Provisions	**[illegible]**	[illegible]	[illegible]	–	[illegible]
Deductible SRED expenditures	**[illegible]**	–	[illegible]	–	[illegible]
Pension and other post-employment benefits	**—**	(349[illegible]	34[illegible]	7[illegible]	27[illegible]
Employee benefit commitment	**7[illegible]**	7[illegible]	—	–	—
Compound interest	**—**	(36[illegible]	3[illegible]	[illegible]	2[illegible]
Province of Ontario note	**—**	(28[illegible]	2[illegible]	–	2[illegible]
Unrealized foreign exchange	**—**	(13[illegible]	1[illegible]	[illegible]	[illegible]
Impairment provision of investment in subsidiaries	**[illegible]**	–	[illegible]	–	[illegible]
Land	**—**	(3[illegible]	[illegible]	(1[illegible]	[illegible]
Land lease	**[illegible]**	[illegible]	—	–	—
Deferred tax assets not recognized	**(315[illegible]**	1,14[illegible]	(1,462[illegible]	(118[illegible]	(1,344[illegible]
Investment property	**—**	[illegible]	(5[illegible]	–	(5[illegible]
Plant and equipment	**(4[illegible]**	(4[illegible]	—	–	—
Inventories	**(1[illegible]**	(1[illegible]	—	–	—
Other	**—**	[illegible]	(1[illegible]	(1[illegible]	—
Net deferred tax asset (liability)	**—**	–	—	–	—

Non-capital loss carry-forward as at September 30:

	2017	**2016**
	$	$
2027	**—**	11
2028	**—**	—
2029	**—**	1,247
2030	**—**	702
2031	**—**	182
2032	**55**	296
2033	**400**	401
2034	**164**	164
2035	**238**	238
2036	**54**	109
Total	**911**	3,350

The capital loss carry-forward balance after CCAA emergence of $nil (2016 - $29) expired unused on acquisition of control of the Company on June 30.

(Expressed in millions of Canadian dollars except where otherwise indicated)

10. Income taxes (continued)

The benefit of investment tax credits of $nil (2016 - $9) has not been accrued in the interim condensed consolidated financial statements of the Company. The use of the available credits is dependent on the realization of sufficient future taxable profit within the carry-forward period. On acquisition of the Company, all available credits were eliminated pursuant to the Plan.

Unrecognized non-capital losses, investment tax credits, deductible SRED expenditures and similar tax attributes are subject to restrictions in use after the occurrence of a loss restriction event such as an acquisition of control by a new shareholder. The use of any remaining tax attributes after acquisition is dependent on realizing sufficient future taxable income within the carry forward period and satisfying the applicable legislative provisions of the *Income Tax Act* (Canada) and its associated Regulations.

11. Capital management

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital by preparing annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to external restrictions. Stelco's capital structure consists of long-term debt and equity (deficiency) as follows:

	September 30, 2017 $	**December 31, 2016** $
Total long-term debt	**11**	1,822
Total equity (deficiency)	**293**	(3,287)
Total	**304**	(1,465)

12. Commitments and contingencies

Operating leases

The Company has entered into operating leases on its machinery and equipment, with lease terms between three and five years. Additionally, in connection with the Company's emergence from CCAA (note 13), the Company sold and leased back on a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	September 30, 2017 $	**December 31, 2016** $
Within 1 year	**4**	4
2 to 5 years	**27**	8
Over 5 years	**139**	—
Total	**170**	12

12. Commitments and contingencies (continued)

Claims and litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Establishment of new pension plans

Pursuant to Ontario Regulation 255/17 ("Regulation") made under the *Pension Benefits Act* (Ontario) on June 30, 2017, the Company is required to establish a new pension plan for service on and after January 1, 2018 for the active hourly and salaried employees of the Company on the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled (see note 13). Under the Regulation, the Company is required to make annual contributions for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 annually and decline to $3 annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefit Act* (Ontario).

Additional commitments have been disclosed in note 13.

13. Emergence from CCAA

On June 30, 2017, in connection with the emergence of the Company from protection under the CCAA, the Company filed Articles of Reorganization under the *Canada Business Corporations Act* ("CBCA") and implemented the Plan pursuant to the CCAA and CBCA, which provided for the restructure of Stelco's business, capital and management. On that date, the following transactions occurred:

- Bedrock indirectly acquired all of Stelco's shares from U. S. Steel for cash proceeds of $70;
- Secured claims amounting to US$127 of U. S. Steel for the USS Holdings secured revolving loan and interest (discussed in note 5) which includes US$49 of other USS trade claims recognized as related party transactions that were paid in full;
- Secured claims relating to construction liens of $11 and realty taxes of $16 were settled in full;
- Unsecured claims of U. S. Steel loans totaling $1,571 consisting of the USS term loan and USS unsecured revolving loan (note 5), plus accrued interest of $959 and net trade amounts of $26 recognized as related party transactions, were discharged and cancelled for nominal consideration;
- General unsecured creditors with proven claims totaling approximately $131, which consisted primarily of trade payables, will participate in a pool of $15 in respect of their claims. The Province of Ontario waived its distribution in respect of its general unsecured loan of $150 plus interest (note 5). In addition, Stelco paid $9 to settle certain salaried employee and retiree claims. Upon implementation of the Plan, all of these claims were compromised, released, fully discharged and barred;
- U. S. Steel agreed to continue to provide certain business and transition services to Stelco for specified periods and for agreed upon pricing;
- Stelco committed to purchasing all of its iron ore requirements from U. S. Steel through the 2021 shipping season up to a specified maximum amount;

13. Emergence from CCAA (continued)

- Stelco's pension and OPEB liabilities of $1,387 were cancelled and discharged, and the Company concurrently entered into new funding commitments with the pension and OPEB trusts. Stelco committed to pay up to a maximum of $430 ($30 of which was paid on June 30, 2017) to fund the Lake Erie Bargaining Unit Pension Plan, Lake Erie Salaried Pension Plan, Hamilton Bargaining Unit Pension Plan, Hamilton Salaried Pension Plan, and the Pickle Line Pension Plan (collectively the "Main Pension Plans"); a portion of this funding is paid with a certain percentage of free cash flow that will be guaranteed by Bedrock up to $160;

- Stelco committed to make fixed contributions of approximately $300 over 20 years to independent trusts created for the purpose of receiving, holding and distributing funds (the "OPEB Entities") on account of OPEBs for legacy employees of Stelco, of which $22 will be funded through a non-revolving loan provided by the Province of Ontario (discussed in note 5). In addition, Stelco has agreed to pay a portion of its free cash flows and certain tax-related savings amounts to the OPEB Entities subject to certain provincial credit facilities being repaid. Furthermore, Stelco has agreed to make a secured loan available of up to $39 to the OPEB Entities;

- Stelco entered into a Tax Savings Agreement with the Province of Ontario, the administrator of the Main Pension Plans and the OPEB Entities pursuant to which 50% of the tax attributes of the Company as at June 30, 2017 will be cancelled. The Company will be required to make payments equal to 33.5% of its annual tax savings realized through the use of its remaining tax attributes. The Main Pension Plans are entitled to the first $75 of the tax savings, after which they will be shared equally between the Main Pension Plans and the OPEB Entities.

- Stelco transferred all of its land assets at Hamilton Works and Lake Erie Works with a net book value of $99 (note 4) as well as the investment property with a net book value of $21 to an independent entity (the "Land Vehicle") formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities;

- Stelco entered into a 25-year lease with two 10-year renewal terms and one final 4-year term with the Land Vehicle in respect of the real property on which Hamilton Works and Lake Erie Works are situated; the undiscounted minimum lease payments for the non-cancellable lease term are $229;

- The Province of Ontario was paid $79 as a financial assurance that will be held by the Ontario Ministry of the Environment and Climate Change on behalf of the Land Vehicle for the purposes of addressing historical environmental contamination, if any; any amount of such financial assurance that is not required by the Province of Ontario will be released to repay first any outstanding amounts in certain provincial credit facilities, or otherwise in favour of the independent Pension Trusts and OPEB Entities;

- The Province of Ontario provided a non-revolving loan of $22 to Stelco consisting of $10.5 available to be drawn in 2017 and repayable in 2020 and $11.5 available to be drawn in 2018 and repayable in 2021. Further information on the terms of the loan is provided in note 5; and

- Stelco entered into a revolving asset-based lending facility pursuant to which it has the ability to borrow up to the lesser of $375 and a borrowing base calculation that includes a percentage of net accounts receivable, inventory less other reserves. Further information on the terms of the loan are provided in note 5.

As a result of the implementation of the Plan, Stelco recognized a gain on emergence from CCAA of $3,665 on June 30, 2017.

14. Related party transactions and key management personnel remuneration

Upon being acquired on June 30, 2017, the Company became a related party of Bedrock. As part of the purchase transaction, transaction costs of $18 incurred by Bedrock on behalf of the Company were recognized as a payable and as a selling, general and administrative expense. In addition, the Company has executed a management services agreement with an affiliate of Bedrock under which the Company will receive senior management, commercial, business development, operating, financial, human resources, and executive recruitment services, as well as other services that may be required from time to time. Fees for services will be based upon actual costs incurred by Bedrock, plus a 2% mark-up on management services fees up to $5, and any services above $5 will be reimbursed at cost. As at September 30, 2017 the Company has receivables and payables related to Bedrock of $4 and $1 respectively. The Company has incurred expenses of $1 in management services provided by Bedrock and its affiliated entities for the three and nine months ended September 30, 2017.

On September 25, 2017, Bedrock Industries B.V., the direct parent of Stelco, formed a wholly owned subsidiary, Stelco Holdings Inc., which is also a related party of the Company. As at September 30, 2017, the Company had receivables from Stelco Holdings Inc. of $4.

Key management personnel

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise the Executive Senior Leadership Team, expatriates in executive positions as well as contracted services provided by the Chief Restructuring Officer, General Counsel and Director of Corporate Services.

During the nine months ended September 30, 2017, Stelco recorded $3 (2016 - $3) as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits.

15. Events after the reporting period

Initial Public Offering

On September 25, 2017, Bedrock Industries B.V., the direct parent of Stelco, formed a wholly owned subsidiary, Stelco Holdings Inc. for purposes of acquiring Stelco and completing a public offering of its common shares. Stelco Holdings Inc. completed a public offering on November 10, 2017. As at November 10, 2017, Stelco Holdings Inc. acquired all of the issued and outstanding shares of Stelco Inc., resulting in it becoming a wholly owned subsidiary of Stelco Holdings Inc.