2017 MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF STELCO HOLDINGS INC.

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Holdings Inc.'s (Stelco Holdings) results of operations and financial performance. Unless the context indicates otherwise, references to the "Company", "we", "us" or "our" refer to Stelco Holdings and its consolidated subsidiaries, as applicable. This MD&A, which has been prepared as of February 21, 2018, should be read in conjunction with our audited consolidated financial statements and related notes for the six months ended December 31, 2017 (2017 Consolidated Financial Statements). Our 2017 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to the Company, including our long-form supplemented PREP prospectus (the Prospectus), dated November 2, 2017 in respect of Stelco Holdings' initial public offering that closed on November 10, 2017, have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website www.sedar.com.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our *"Business Overview"; "Strategy"; "Operations Outlook*"; "*Capital Resources and Liquidity"*; *"Risks and Uncertainties*" sections of this MD&A and in the "*Risk Factors*" section in the Prospectus.

Forward-looking information may relate to our future outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividend policy, plans and objectives of our Company. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as ''plans'', ''targets'', ''expects'' or ''does not expect'', ''is expected'', ''an opportunity exists'', ''budget'', ''scheduled'', ''estimates'', ''outlook'', ''forecasts'', ''projection'', ''prospects'', ''strategy'', ''intends'', ''anticipates'', ''does not anticipate'', ''believes'', or variations of such words and phrases or state that certain actions, events or results ''may'', ''could'', ''would'', ''might'', ''will'', ''will be taken'', ''occur'' or ''be achieved''. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. The forward-looking statements contained herein are presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, as well as our financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes.

The forward-looking information includes, among other things: statements relating to the continuation of the strong production performance enhancements to our LEW dock facilities; the Company's position to grow organically; expectations regarding utilization of excess capacity and purchasing slabs and toll-rolling arrangements; expectations on the growth of our annual shipments by the end of 2022; expectations regarding upgrades to existing facilities and their effect on revenue and costs; expectations regarding the Company's access to a wider range of markets; expectations concerning working capital and capital expenditures and the future actions relating thereto and the anticipation of creating value.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct.

The forward-looking information contained in this MD&A represents management's expectations as of the date of this MD&A and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except (i) as required under applicable securities laws in Canada and (ii) to provide updates in our annual MD&A for each financial year up to and including in respect of annual shipment growth targets in 2022 disclosed in the "*Operations Outlook*" section of this MD&A, including to provide information on our annual shipment growth targets disclosed therein, actual results and a discussion of variances from our growth targets. For certain assumptions and material factors about our target growth in annual shipments by the end of fiscal year 2022 contained in this MD&A, refer to the "*Operations Outlook*" section of this MD&A. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to, those described below and referred to under the heading "*Risk Factors*" below and under the heading "*Risk Factors*" disclosed in the Prospectus.

We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

Management's Discussion and Analysis

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Business Overview

Stelco Holdings is parent company of Stelco Inc., one of Canada's leading steel producers, and listed on the Toronto Stock Exchange (TSX) under the symbol 'STLC'. The Company was incorporated on September 25, 2017 under the *Canada Business Corporations Act* and is based in Hamilton, Ontario, Canada.

The Company completed an initial public offering on November 10, 2017 and acquired all outstanding shares of Stelco Inc. (Stelco) from Bedrock Industries B.V., a wholly-owned indirect subsidiary of Bedrock Industries LP (Bedrock). Following the offering, Bedrock continued to be the Company's indirect majority shareholder owning approximately 85% of the issued and outstanding common shares.

Since Bedrock acquired all outstanding shares of Stelco on June 30, 2017 and had common control at the date when Stelco Holdings acquired Stelco, the Company accounted for this transaction in a manner similar to a pooling of interest method applied from June 30, 2017. This method requires the 2017 Consolidated Financial Statements to be restated for periods prior to the date of obtaining common control (November 10, 2017), to reflect the combination as if it had occurred from the beginning of the period as if the entities were under common control, regardless of the actual date the common control transaction closed.

Initial Public Offering

On November 10, 2017, Stelco Holdings successfully closed its initial public offering (the Offering) of its common shares (Shares) at a price of $17.00 per share. Stelco Holdings issued an aggregate of 13,529,750 Shares under the Offering for total gross proceeds of $230 million. Costs relating to the Offering were approximately $23 million, of which $3 million was applied against the gross proceeds of the Offering and recorded within equity on our consolidated statement of financial position.

Stelco Holdings disclosed the following use of proceeds in its Prospectus (excluding for general corporate and working capital purposes):

(a) Funding of certain capital expenditures including:

- (i) the enhancement of our capabilities to produce advanced steels in the amount of $40 to $45 million
- (ii) the restart of the temper mill and installation of annealing furnaces in the amount of $20 to $25 million; and
- (iii) the upgrade of the LEW dock facility of up to $10 million; and

(b) pay $50 million to certain pension and OBEB trust and to repay a $11 million loan advanced by the Province of Ontario.

The Company is continuing to pursue the above-noted capital expenditure projects and is in various stages of design, planning and negotiations with third party vendors and service providers to implement these capital projects. Furthermore, Stelco has been able to significantly reduce the costs to the Company of the LEW dock facility upgrade by negotiating with a third party to fund a significant portion of the costs of the project in consideration for a multi-year servicing and logistics contract. The Company has repaid an $11 million loan from the Province of Ontario using cash proceeds from the Offering.

Stelco Inc.

Overview

Stelco (formerly known as U. S. Steel Canada Inc. (USSC)) was established in 1910 and is primarily engaged in the production and selling of steel products. Stelco owns one of the newest and among the most technologically advanced integrated steel making facilities in North America. Stelco produces flat-rolled value-added steels, including premium-quality coated, cold-rolled and hot-rolled steel products. With first-rate gauge, crown, and shape control, as well as reliable uniformity of mechanical properties, our steel products are supplied to demanding customers in the construction, automotive and energy industries across Canada and the United States. We believe our total cash costs per net ton (nt) are among the lowest in North America and we expect our margins per nt will expand as we increase our asset utilization and regain volumes lost in recent years.

We operate from two facilities: Lake Erie Works (LEW) near Nanticoke, Ontario and Hamilton Works (HW) in

Hamilton, Ontario. LEW facilities are comprised of a coke battery, a blast furnace, two basic oxygen furnace steel making vessels, a steel ladle treatment system (LTS), a RHOB vacuum steel degassing facility, twin-strand slab caster, a 6-stand hot strip mill, and three pickling lines. LEW produces hot-rolled coil and hot-rolled pickled steel that are either sold to third-parties or sent on to HW for further processing. HW facilities are comprised of a coke battery, a 4-stand cold-rolling mill, a Z-Line galvanizing/galvannealing line and a continuous galvanizing line (CGL). HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled and coated steel products as well as coke that is supplied to LEW to fuel its blast furnace and could be sold to third-parties. We believe our rolling and finishing capabilities represent some of the most advanced in our industry and differentiate us from our North American competitors. In addition to LEW and HW, we own a 50% interest in two separate joint ventures: Baycoat Limited Partnership and D.C. Chrome Limited that complement our finishing capabilities.

Our operations are strategically located near our raw material suppliers and core customers which we believe positions us to serve both Canadian and United States customers with shorter lead-times relative to other steelmakers. Furthermore, the fact that both of our operating facilities have access to multiple modes of transportation (marine vessel, rail and truck) allows us to negotiate competitive freight rates, rapidly adapt to changing market environments, and access customers across a wide range of locations.

Emergence from the Companies' Creditors Arrangement Act (CCAA)

From October 31, 2007, until June 30, 2017, Stelco operated as an indirect, wholly-owned subsidiary of United States Steel Corporation (USS). During this period, Stelco experienced numerous operational disruptions, including labour disruptions between 2009 and 2013, incurred significant debt obligations, and made substantial cash payments in respect of historical pension and other post-employment benefit (OPEB) obligations. Stelco suffered significant financial losses during this period and sought protection through the CCAA in September of 2014.

Following a competitive sales process, Stelco Inc. reached an agreement with Bedrock on December 9, 2016, whereby Bedrock would acquire all the outstanding shares of the Company. We believe Stelco's acquisition by Bedrock and restructuring has significantly enhanced our financial position as it has eliminated debt, extinguished pension and OPEB obligations in exchange for making manageable fixed payments and formula-based contributions linked to the cash flow of the business, addressed historical environmental liabilities, and allowed us to regain control over our sales functions and production decisions.

Strategy

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on four strategic objectives: (i) optimizing production from our assets; (ii) maintaining our strong balance sheet; (iii) maximizing profitability and cash flows; and (iv) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock's significant holdings in Stelco, which is unique amongst North American public steel companies. We believe pursuing these strategic objectives will allow us to generate long-term, sustainable returns for our shareholders.

Optimize Production From our Assets

As a result of historical underutilization, we have excess capacity in our coke production as well as rolling and other strategic steel product production capabilities. We believe we can utilize this excess capacity to grow our revenues and lower our costs per nt. We are actively pursuing initiatives, including purchases of external slab and toll-rolling for third-parties, that can be implemented with limited investment to improve asset utilization. In addition to utilizing excess capacity, we are continuing to pursue initiatives such as capturing, recycling, and selling the by-products generated in our production process. We believe we can deliver significant organic growth from these types of low-capital, high-return projects.

Maintain our Strong Balance Sheet

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining our strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including Advanced High Steel Strength (AHSS) and Ultra High Steel Strength (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and OPEBs. Further, we have approximately $1.2 billion of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at December 31, 2017, which may allow us to reduce our cash tax payments and increase free cash flow generation. We seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

Maximize Profitability and Cash Flow

Our production and sales efforts are focused on products and end markets that we consider to have the highest potential for profitability and growth. We are currently focused on expanding our technical capabilities in order to produce AHSS and UHSS grades as well as cold-rolled, fully-processed products. We believe these products, which are geared toward the automotive and construction end markets, will enable us to deliver higher margins and generate increased cash flow. Additionally, we seek to aggressively maintain our low cost position by controlling the cost of our raw material inputs by entering into long-term supply contracts at either fixed or floating prices and regularly reviewing these contracts with a view toward improving terms. We have also focused on improving our working capital velocity through initiatives aimed at optimizing inventory levels and accounts receivables. We believe we can maximize our profitability and cash flow generation by pursuing these initiatives.

The Company's sales strategy is focused on maximizing profits, including regaining higher margin business, increasing its expansion into additional markets outside Canada with respect to hot-rolled, cold-rolled and coated coil sales, and assessing opportunities to introduce new products. Due to the Company's recently improved financial position, we believe a major roadblock has been removed that previously impacted our ability to compete for automotive customer contracts.

Grow our Business

We take a disciplined approach to our capital investments with a focus on return-based metrics. Our management team has a proven track record of value creation through an opportunistic and disciplined approach to acquisitions. By maintaining a strong balance sheet, we can selectively pursue organic and strategic opportunities when market conditions are favourable to us. We have adopted this return-based approach to evaluate opportunities for our business as we seek to expand our capabilities. We evaluate and consider strategic opportunities based on strictly defined financial criteria focused on pursuing projects with the highest cash on cash returns and fastest payback. We believe this will position us to grow our business through complementary acquisitions and other investments to maximize shareholder returns.

Environmental, Health and Safety

Environmental

We are committed to being an environmentally responsible company and in protecting the environment of the communities where we have operating facilities. Our ISO 14001 registered environmental management system establishes and reviews environmental objectives and targets to: reduce air, water and waste pollution by means of practices, operating procedures and programs; comply with environmental legal requirements and meet our other environmental goals; prevent pollution in a cost effective manner; and continually improve. We review and audit the operating practices of our business to monitor compliance with the Company's health and safety and environmental policies and legal requirements. We believe that future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on our financial position. In addition, we believe that our plans to increase production to use our substantial excess capacity will not be materially affected by the applicable environmental requirements, including greenhouse gas (GHG) and other air emissions requirements.

As a result of our emergence from CCAA, we entered into a Framework Agreement Concerning Environmental Issues at the Hamilton Works and Lake Erie Works properties with Bedrock and the Province of Ontario (the Environmental Framework Agreement) which we believe has significantly lowered our exposure to unforeseen historic environmental issues at LEW and HW. As Stelco has been conducting steel making operations at HW for more than a century and LEW for several decades, there are instances of historical contamination of the lands at our HW and LEW facilities.

Under the terms of the Environmental Framework Agreement, we are working to establish the extent and nature of such historical contamination. We have received a release from the Province of Ontario pursuant to which it agreed not to hold Stelco liable for certain historical contamination provided that we comply with the terms of the Environmental Framework Agreement.

By January 1, 2026, LEW and HW will be required to implement plans and measures to reduce the amount of sulphur dioxide (SO2) and other compounds emitted from the combustion of coke oven gas by-product by implementing coke oven gas desulphurization technology. This requirement arises under a notice (Notice) issued under subsection 56(1) of the Canadian Environmental Protection Act, 1999 (CEPA) which requires prescribed persons to prepare and implement pollution prevention plans in respect of specified toxic substances released from the iron and steel sector. The substances are SO2, oxides of nitrogen (NOx), and volatile organic compounds (VOC) and the Notice applies to all steel mills, including LEW and HW, other integrated mills, as well as mini mills. The Notice requires these facilities to prepare and implement plans to achieve specified air emission targets for SO2, NOx, and to implement best practices to reduce fugitive emissions of VOCs. As noted above, the target date for desulphurization of coke oven gas is January 1, 2026. The facilities are required to monitor baseline emissions in 2017, prepare a plan in 2018, and implement the plan by the specified date. The facilities will also be required to submit a written declaration that the plan has been prepared, and one that the plan is being implemented, as well as interim progress reports.

Health and Safety

The health and safety of our employees is one of our top priorities. We are committed to continued responsibility and excellence in the health and safety of our employees and in protecting the environment of the communities where we have operating facilities. In recent years, we have continually invested in the health and well-being of our employees. These investments have included enhancements to personal protection equipment for all employees, improvements to existing equipment and the workplace environment to enhance employee safety and protection, and continuous review of policies and procedures to implement best practices across our facilities.

We comply with a variety of health and safety requirements administered by regulatory authorities in Ontario where our facilities are located. We do not believe that we are faced with any requirements in respect of health and safety or industrial hygiene that will have a material adverse effect on our financial position. We maintain an internal health, safety, asset integrity, and risk audit system, which is carried out at the corporate level, to determine compliance with legal requirements and our corporate policies in these areas.

Non-IFRS Performance Measures

In this MD&A, we refer to certain non-IFRS measures which we use in addition to IFRS measures to evaluate the financial condition and results of operations of the business. We use non-IFRS measures that are typically used by our competitors in the North American steel industry, including “Adjusted Net Income”, ‘‘Adjusted EBITDA’’, ‘‘Adjusted EBITDA per net ton’’, ‘‘Selling Price per net ton’’, and ‘‘Shipping Volume’’ to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management uses these non-IFRS financial measures in order to facilitate operating performance comparisons from period-to-period, to prepare annual operating budgets and forecasts, and drive performance through our management compensation program.

These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

Adjusted Net Income

Adjusted net income is defined as net income or loss for the period adjusted for the impact of impairment charges related to intangibles, property, plant and equipment and investments; acquisitions/disposition gains or losses and related transaction costs; significant tax adjustments; unrealized gains or losses on derivative instruments; remeasurement impacts related to employee benefit commitment obligations; adjustment for other significant non-routine, non-recurring and/or non-cash items; and tax effect of the adjusted items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) initial public offering costs included in selling, general and administrative expenses (ii) fair value impact on acquired inventory recorded in cost of sales (iii) provision on pension and other post-employment benefits, (iv) restructuring costs, and (v) separation costs related to USS support services. Management believes adjusting net income by excluding the impact of specified items may be more reflective of ongoing operational results and uses this measure internally to assist with the planning and forecasting of future operating results. Management is of the view that adjusted net income is a useful measure of our performance because the aforementioned adjusting items do not reflect the underlying operating performance of our core business and are not necessarily indicative of future operating results. Adjusted net income is intended to provide additional information only and does not have a standardized definition under IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA

Adjusted EBITDA is defined as net income or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization and the impact of certain non-routine, non-recurring, and/or non-cash items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) initial public offering costs included in selling, general and administrative expenses (ii) fair value impact on acquired inventory recorded in cost of sales (iii) provision on pension and other post-employment benefits, (iv) restructuring costs, and (v) separation costs related to USS support services. Adjusted EBITDA is used by management, investors, and analysts to measure operating performance of the Company and is a supplement to our consolidated financial statements presented in accordance with IFRS. Adjusted EBITDA is a helpful measure of operating performance before non-operating financial items such as finance costs, finance income and income tax expense, as well as depreciation, which are non-cash expenses. Adjusted EBITDA also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company. Adjusted EBITDA is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA per net ton

We monitor Adjusted EBITDA per nt, defined as Adjusted EBITDA (defined above) divided by Shipping Volume (defined below), as a key indicator of performance during the period. Generally, Adjusted EBITDA per nt is used by management, investors, and analysts to measure profitability on a per unit basis, while excluding the impacts of finance costs and finance income, income tax expense, depreciation, as well the impacts of certain non-routine, non-recurring, and/or non-cash items. Adjusted EBITDA per nt is also helpful to facilitate comparison of per unit profitability on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. Adjusted EBITDA per nt is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Selling Price per net ton

We believe another key measure of performance is Selling Price per nt, which is defined as revenue divided by nt shipped in the period. Selling Price per nt is used by management, investors, and analysts to measure sales price on a per unit basis. Selling Price per nt is helpful in isolating a key driver in the generation of revenue, selling price, and helps facilitate the comparison of sales performance relative to peers. Selling Price per nt is also helpful in comparing performance from period-to-period and understanding factors and trends impacting our business. Selling Price per nt is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Shipping Volume

Shipping volume represents the total volume of steel products shipped in the respective period measured in nt. Steel product shipments include hot-rolled, cold-rolled and coated coils, as well as other steel products. Other steel product shipments include non-prime steel products such as secondary steel and scrap. Shipping Volume is used by management, investors, and analysts to measure quantities of products sold in the period and isolate a key element in the generation of revenue. Measuring Shipping Volume helps facilitate comparison of sales performance relative to peers and comparison of performance from period-to-period. It also provides a more complete understanding of factors and trends impacting our business. Shipping Volume is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Selected Information

The following table provides selected information for the period as indicated:

(millions of Canadian dollars, except where otherwise noted)

Six months ended December 31,		**2017**
Financial results		
Total revenue		**788**
Gross profit		**72**
Selling, general and administrative expenses		**47**
Net loss		**(15)**
Adjusted net income		**41**
Adjusted EBITDA		**76**
Per common share and other		
Net loss per common share	**$**	**(0.19)**
Adjusted net income per common share	**$**	**0.52**
Weighted average common shares outstanding (basic and diluted)		**79**
Financial position		
Total assets		**1,223**
Total non-current liabilities		**352**
Operating and other results		
Selling Price per nt (in dollars per nt)		**786**
Adjusted EBITDA per nt (in dollars per nt)		**76**
Shipping volumes (in thousands of nt)		**1,003**
Hot-rolled		**772**
Coated		**155**
Cold-rolled		**27**
Other		**49**

Financial Results

Revenue

The majority of our revenue from the sale of goods is derived from hot-rolled, cold-rolled and coated steel products. A substantial portion of the Company's revenue is derived from spot sales rather than through fixed-price contracts with customers. In addition, other product sales such as coke, iron ore fines, and by-products (tar, ammonia and light oil) are included in revenue. Our revenues include customers from the steel service centres, construction, energy, automotive and appliance industries across Canada and the United States.

Revenue was impacted by a general improvement in the market price of steel during the second half of 2017, which reflects the macroeconomic conditions around supply and demand for steel products.

Gross profit

Gross profit reflects revenue less cost of goods sold. Cost of goods sold includes product-related costs, labour costs, employment benefits and other operating costs such as repairs and maintenance, as well as depreciation.

Our gross profit for the period was impacted by a blast furnace outage between August 14 and September 9 of the current period. While the outage was successful in improving steel production and blast furnace reliability, the Company did incur non-capitalizable costs directly and indirectly related to the outage, such as maintenance and unabsorbed overhead.

Selling, general and administrative expenses

Our SG&A expenses are predominantly comprised of corporate functions, and include employee salary and benefits, marketing, professional and legal fees, travel, and other expenses related to the corporate infrastructure required to support our business. SG&A costs also include the Company's initial public offering costs and other expenses associated with establishing and enhancing support functions and information systems that have historically been provided to Stelco by USS, such as costs related to implementing our new cloud-based Enterprise Resource Planning (ERP) system, which is expected to be completed by the end of 2018.

SG&A expenses for the period primarily include the following: $20 million in initial public offering costs, $6 million in employee salary and benefits, $5 million in ERP implementation expenses relating to the separation from USS and $4 million in professional, consulting and legal fees mostly related to post-CCAA advisory and other services in connection with the separation from USS. Costs related to the establishment of our new cloud based ERP system do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

Non-IFRS Measures Results

Adjusted net income

The following table provides a reconciliation of net income (loss) to adjusted net income:

(millions of Canadian dollars, except where otherwise noted)

Six months ended December 31,	**2017**
Net loss	**(15)**
Add back/(Deduct):	
Initial public offering costs[1]	**20**
Remeasurement of employee benefit commitment[2]	**10**
Fair value impact on acquired inventory recorded in cost of sales[3]	**11**
Provision on pension and other post-employment benefits[4]	**2**
Restructuring costs[5]	**6**
Separation costs related to USS support services[6]	**7**
Adjusted net income	**41**

1. Represents IPO costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.
2. Includes remeasurement of employee benefit commitment related to changes in future funding requirements.
3. Included in cost of sales for the period is the difference between the fair value of inventory acquired by the Company and book value of Stelco's inventory at the date of acquisition. This difference has been added back to calculate Adjusted Net Income as it is considered to be a non-cash expense and not reflective as a cost of sale in nature.
4. Represents difference between total cash funding obligation for pensions and OPEBs.
5. Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The CCAA plan was implemented on June 30, 2017.
6. Relates primarily to ERP implementation costs associated with the process of separating from USS.

Adjusted EBITDA

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

(millions of Canadian dollars, except where otherwise noted)

Six months ended December 31,	**2017**
Net loss	**(15)**
Add back/(Deduct):	
Depreciation	**12**
Finance costs	**33**
Initial public offering costs[1]	**20**
Fair value impact on acquired inventory recorded in cost of sales[2]	**11**
Provision on pension and other post-employment benefits[3]	**2**
Restructuring costs[4]	**6**
Separation costs related to USS support services[5]	**7**
Adjusted EBITDA	**76**
Adjusted EBITDA as a percentage of total revenue	**10%**

1. Represents IPO costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.
2. Included in cost of sales for the period is the difference between the fair value of inventory acquired by the Company and book value of the Company's inventory at the date of acquisition. This difference has been added back to calculate Adjusted EBITDA as it is considered to be a non-cash expense and not reflective as a cost of sale in nature.
3. Represents difference between total cash funding obligation for pensions and OPEBs and amount already reflected in EBITDA.
4. Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The CCAA plan was implemented on June 30, 2017.
5. Relates primarily to ERP implementation costs associated with the process of separating from USS.

Review of Financial Condition

The following table provides selected financial position information as indicated:

(millions of Canadian dollars)

As at,	**December 31, 2017**	June 30, 2017
Cash and cash equivalents	**250**	30
Trade and other receivables	**204**	169
Inventories	**448**	282
Property, plant and equipment	**279**	270
Total assets	**1,223**	846
Trade and other payables	**309**	94
Other liabilities	**68**	54
Employee benefit commitment[1]	**344**	329
Total liabilities	**726**	561
Total equity	**497**	285

1. Employee benefit commitment as at June 30th, 2017, includes a $12 million adjustment based on a change in the expected timing of payments and total cashflows. In accordance with IFRS, the Company recorded the $12 million increase to the employee benefit commitment as a purchase price adjustment with a corresponding reduction to equity on the Company's consolidated statement of financial position at June 30, 2017.

As reflected in the selected financial position information above, between June 30, 2017, and December 31, 2017, our cash and cash equivalents increased $220 million primarily due to the proceeds raised during the initial public offering during November 2017.

Also, our inventory increased from $282 million at June 30, 2017 to $448 million at December 31, 2017, primarily due to an increase in raw materials and semi-finished products relating to higher shipping volumes and production output expected during the first quarter of 2018.

During the fourth quarter of 2017, Stelco entered into an inventory monetization arrangement which resulted in cash proceeds of approximately $121 million and provided additional liquidity for our operations. Under the terms of the arrangement, Stelco receives cash proceeds based upon an agreed pricing formula, less a required cash margin, and the quantity of certain raw materials on-site. Currently, iron ore and metallurgical coal inventory are monetized under the arrangement. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty. Cash amounts advanced under this arrangement, represent a financial liability to the Company which is recorded within other payables on the Company's consolidated statement of financial position. As at December 31, 2017, cash amounts advanced under inventory monetization arrangement had a carrying value of $121 million.

We also expect our cashflows to be enhanced in the coming years due to substantial tax attributes which, as at December 31, 2017, can shield pre-tax income of approximately $1.2 billion (or approximately $291 million on an after tax basis) from taxation. These tax attributes consist of non-capital loss carry forwards of $836 million ($209 million after tax), UCC deductions of $290 million ($73 million after tax) and Scientific Research and Experimental Development (SRED) deductions of $36 million ($9 million after tax), which are expected to reduce the amount of taxes otherwise payable by Stelco and form part of future deposits into the employee benefit independent trusts (ELHTs). Refer to "*Employee Benefit Commitments*" section in this MD&A for further details.

Results of Operations

The Company conducted a planned blast furnace outage during August and September 2017, which included applying a protective shotcrete refractory to the blast furnace internal walls in order to improve the operational reliability and extend the working life of the furnace. The blast furnace production was reduced in the early months of 2017 in order to maintain furnace stability prior to the planned major repair and maintenance outage scheduled to start on August 14, 2017. This reduction in production contributed to the reduced sales volume.

Work performed on the blast furnace during the outage was completed within plan (including timing and budget) and improved its operational reliability and productivity. As an indication of the production improvements already experienced, from July 1, 2017 until entering the outage on August 14, 2017, the blast furnace averaged approximately 21 heats (production volume of liquid steel) per day. After completing the outage and bringing the furnace back to full production on September 9, 2017, the blast furnace averaged 29 heats per day, over the 113 day period ending December 31, 2017, representing an increase of 38% from 21 heats per day.

Operations Outlook

We believe that by the end of fiscal year 2022 an opportunity exists for us to grow our annual shipments to between 3.0 and 3.2 million nt. Following a review of our 2017 Consolidated Financial Statements, we believe we can achieve this growth organically by optimizing utilization of our assets and focusing our production and sales efforts on high-margin products and end markets that we consider having the greatest potential for profitability and growth. Historically, approximately one-third of sales by volume were made to the automotive market and approximately one-third of our sales by volume were coated and cold-rolled products. We are actively seeking to re-establish relationships with these customers and regain coated and cold-rolled volumes. Additionally, we are seeking to expand our product offering by investing in research and development, and enhancing our technical capabilities in order to produce advanced steels. We are also seeking to re-start our temper line and install annealing furnaces to allow for the production of cold-rolled, fully-processed products, which we believe will enhance our profitability.

Asset Optimization

We plan to take a disciplined approach to all of our future investments with a focus on maximizing shareholder returns. We continue to have excess capacity with certain assets and believe we can utilize this excess capacity to grow our revenues and lower our total costs per nt. In particular, LEW's hot strip mill has approximately 0.9 million nt of excess capacity over the current year production which can be utilized through purchases of external slab or toll-rolling for third-parties. Improved utilization from processing slabs, as well as revenue received from toll-rolling third-party volumes, could lower our total costs per nt and increase our cash flow generation.

In order to support increased volumes from improved utilization, we are in the process of upgrading our LEW dock facility to allow for direct off-loading of third-party slabs as well as loading of hot-rolled coils for shipping to customers. We believe this upgrade will provide us the opportunity to access the U.S. markets via low cost marine vessel transportation. We expect the dock upgrade to be completed during the first half of 2018. The investment required to complete this upgrade is expected to be less than $10 million in total, a substantial portion of which will be funded by a third party pursuant to a multi-year servicing and logistics contract entered into with the Company. Also, we have commenced selling some excess coke to third parties and we are in active discussions with other potential parties regarding sales of coke from our HW coke battery, which is currently operating at approximately 90% of its design capacity. This could allow us to generate additional revenue and improve our costs as a result of operating leverage.

Expansion of Our Product Capabilities

We intend to focus our production and sales efforts on products and end markets that we consider to have the highest potential for profitability and growth. We are currently focused on expanding our technical capabilities in order to produce AHSS and UHSS grades as well as cold-rolled, fully-processed products. We plan to restart HW's temper mill and install annealing furnaces, which is estimated to cost $20 to $25 million. This will allow us to produce up to approximately 0.2 million nt of cold-rolled full hard fully processed steel, which has historically commanded higher prices relative to the cold-rolled products we produce today. We currently produce first generation AHSS and UHSS products, but believe we have the capability to produce a much wider range of steels. To that end, we plan to invest in research and development to develop the techniques and know-how to produce a wider spectrum of steel grades. In addition, we plan to upgrade finishing mill roll bearings at our hot strip mill to allow us to process advanced steel products and make similar upgrades at the Z-Line to finish those steels into products that would commonly be used in automotive applications. Our annual maintenance capital expenditures are estimated to be in the range of $25 million to $30 million.

Capital Resources and Liquidity

The liquidity and capital resources of the Company are dependent upon a number of factors including, without limitation, market and economic conditions and the impact of these conditions on the price of steel products, raw material costs, the ability to fund necessary capital projects, pension and OPEB funding requirements and labour negotiations and disputes.

Our principal uses of funds are for operating expenses, capital expenditures, finance costs, and debt service. Management believes that cash generated from operations, together with amounts available under our ABL credit facility and inventory monetization arrangement, will be sufficient to meet our future operating expenses, capital expenditures, future debt service costs, and support the growth of our business (primarily through working capital and capital expenditures), repay short-term obligations and for general corporate purposes.

Our ability to fund future operating expenses, capital expenditures and debt service costs will depend on our future operating performance which may be affected by general economic, financial and other factors including factors beyond our control. From time to time, our management team reviews acquisition opportunities and, if suitable opportunities arise, may make selected acquisitions to implement our business strategy.

The Company has a significant requirement for working capital related primarily to inventories due to the lead time of acquiring raw materials, the quantities of raw materials that are required to produce semi-finished steel and the amount of time required to process this semi-finished steel into a finished product. This working capital requirement is characteristic of many companies within the steel industry.

The Company expects to have sufficient working capital for 2018 based on the following:

- the Company's overall working capital position was significantly improved because of the CCAA restructuring;
- the Company has negotiated favourable payment terms with its vendors, thereby improving its working capital without the need for additional funding;
- as at December 31, 2017, the Company had approximately $269 million available under its ABL credit facility;
- during the fourth quarter of 2017, Stelco entered into an inventory monetization arrangement and received cash proceeds of $121 million which was primarily used to repay outstanding amounts drawn on the ABL credit facility;
- as at December 31, 2017, Stelco Holdings had a cash balance of $250 million mostly resulting from net proceeds from the Offering, a portion of which could be made available to Stelco for general corporate purposes and working capital.

Credit Facility and Other Financing Arrangements

ABL Credit Facility

In connection with the CCAA restructuring, Stelco entered into an asset-based revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375 million. The amount available to be drawn under the ABL credit facility will vary from time to time, based upon a borrowing base determined with reference to Stelco Inc.'s trade receivables and certain inventory balances. At December 31, 2017, the available borrowing base was $269 million. 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. Stelco 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, Stelco is subject to payment of an unused line fee ranging from 0.25% – 0.375% of the unused portion of the revolver, depending on the amount undrawn, and is payable monthly. Stelco can obtain letters of credit under the facility at a rate of 2% – 2.5%. Stelco has letters of credit outstanding as at December 31, 2017 in the amount of $35 million. During the year ended December 31, 2017, the Company borrowed certain amounts under the facility as required and repaid the entire amount during the year resulting in a $nil outstanding balance as at December 31, 2017.

Inventory Monetization Arrangement

On December 11, 2017, Stelco entered into an inventory monetization arrangement which is subject to a financing rate of LIBOR plus a margin of 3.5%. Under the terms of the arrangement, cash proceeds are received based upon an agreed pricing formula, less a required cash margin, and the quantity of certain raw materials on-site. Currently, iron ore and metallurgical coal inventory are monetized under the arrangement. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty. Any amount remaining outstanding under the arrangement in respect of raw material inventory that is not consumed during the term, is due and payable on October 31, 2018 with an option to terminate the arrangement earlier, on either August 31, 2018 or September 28, 2018. The arrangement also provides the parties an option to renew the agreement for additional one-year terms, subject to both parties electing to renew.

Cash amounts advanced under this arrangement represent a financial liability to the Company which is recorded within other payables on the Company's statement of financial position. The Company received $121 million under the facility in December 2017, all of which was outstanding as at December 31, 2017.

Share Capital

Stelco Holdings' authorized share capital includes an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series. Stelco Holdings issued 75,283,877 common shares to Bedrock Industries B.V. in exchange for the outstanding common shares of Stelco valued at $285 million on November 10, 2017. The share issuance has been presented as if it occurred on June 30, 2017, consistent with the pooling of Stelco results in the 2017 Consolidated Financial Statements. Additionally, Stelco Holdings completed an initial public offering on November 10, 2017. As part of the initial public offering, the Company issued 13,529,750 common shares resulting in a total number of outstanding shares of 88,813,637 as at the closing date. Refer to note 18 of the 2017 Consolidated Financial Statements for further details.

Dividend Policy

The Company's primary objective is to deploy capital in a disciplined manner that creates value for our shareholders. We plan to evaluate our capital allocation policies on an on-going basis to ensure that we are maximizing returns for our shareholders. These policies may include initiating payment of a dividend on our common shares at some point in the future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend on many factors, including, among others, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by applicable corporate law and other factors that our Board of Directors may deem relevant.

In accordance with the Company's Dividend Policy, Stelco Holdings management and the Board of Directors will regularly review the Company's rate of dividends to ensure an appropriate level of dividends. At its most recent meeting on February 21, 2018, the Board of Directors declared a quarterly cash dividend of $0.10 per common share payable on March 12, 2018 to shareholders of record on March 7, 2018.

Commitments and Contingencies

Employee Benefit Commitments

- Stelco entered into new funding commitments with certain pension and OPEB trusts. Stelco committed to pay up to a maximum of $430 million to fund five main defined benefit pension plans previously sponsored by the Stelco (Main Pension Plans) which included a $30 million payment made on June 30, 2017.
- Stelco committed to fixed contributions of approximately $300 million over twenty years to the ELHTs created for receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco. In addition, Stelco agreed to pay a portion of its free cash flows (as defined) and certain tax-related savings amounts to the ELHTs.
- Bedrock has guaranteed certain minimum contributions to the Main Pension Plans up to a maximum amount of $160 million. The amount of such guarantee is reduced based upon, among other things, certain contributions being made to the Main Pension Plans over time. The guarantee will be discharged upon the earlier of the $160 million being reduced to zero or the aggregate amount of all payments made by the Company or Bedrock reaching $300 million.
- Certain components of the employee benefit commitments are tied to the Company's future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company in its consolidated statement of financial position is determined based upon the present value of those future payments as estimated by management. Changes in the magnitude or timing of those estimated future cash payments may result in the employee benefit commitment liability balances being adjusted upward or downward in future periods. If such adjustments to the liability carrying value were to occur, the Company would also recognize a corresponding expense item in its consolidated statement of profit or loss as an element of finance cost. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.

Other Commitments

- Iron Ore Contract - Stelco committed to purchasing all of its iron ore requirements up to a specified amount from USS through the 2021 shipping season.
- Transition Services Agreements - USS agreed to continue to provide certain business and transition services to Stelco for a maximum term expiring no later than June 30, 2019.
- Union Agreements - Stelco entered into new collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending during 2022.

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 Stelco Inc.'s emergence from CCAA, Stelco Inc.'s sold and leased back the land on which HW and LEW are situated on a 25 year lease.

Future minimum rentals payable under non-cancellable operating leases at December 31, 2017 are as follows:

(millions of Canadian dollars)	
Within 1 year	**4**
2 to 5 years	**24**
Over 5 years	**138**
Total	**166**

Finance Leases

The Company leases equipment and, as of December 31, 2017, buildings under finance lease arrangements. Accordingly as at December 31, 2017, Stelco Holdings has a finance lease obligation with a carrying value of $25 million on its consolidated statement of financial position.

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.

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at December 31, 2017:

		Payments due by period		
(millions of Canadian dollars)	**Total**	**1 year**	**2-5 years**	**After 5 years**
Trade payables	**185**	**185**	**-**	**-**
Inventory monetization arrangement	**121**	**121**	**-**	**-**
Finance lease obligations	**72**	**-**	**9**	**63**
Purchase obligations - non-capital [1]	**832**	**647**	**114**	**71**
Purchase obligations - capital	**11**	**5**	**2**	**4**
Employee benefit commitment [2]	**756**	**32**	**201**	**523**
Total Contractual Obligations	**1,977**	**990**	**326**	**661**

1 Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
2 Represents estimated undiscounted employee benefit commitment obligation.

The Company's contractual obligations can be funded by existing cash on hand, cash flow from operations, inventory monetization arrangement and our ABL credit facility.

Related Party Transactions and Key Management Personnel Remuneration

Parties are considered to be related if one party has the ability to control, jointly control or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, joint ventures, investments in associates, among other entities and persons.

Upon being acquired on June 30, 2017, Stelco Inc. became a related party of Bedrock. Stelco Inc. has executed a management services agreement with an affiliate of Bedrock under which Stelco Inc. 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 million, and any services above $5 million will be reimbursed at cost. As at December 31, 2017, Stelco Inc. has payables related to Bedrock of $1 million. The Company has incurred expenses of $3 million in management services provided by Bedrock and its affiliated entities for the year ended December 31, 2017.

Subsidiaries

Transactions between Stelco Holdings and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these consolidated financial statements.

Key Management Personnel

The Company'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 (ESLT). Effective July 1, 2017, the ESLT is comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Business Development Officer, and General Counsel & Corporate Secretary of the Company.

During the year ended December 31, 2017, the Company recorded $2 million as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits.

Significant Accounting Policies, Judgments, Estimations and Assumptions

Our significant accounting policies are described in note 3 of our 2017 Consolidated Financial Statements. The Company is required to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Company's accounting policies, impairment has been identified as an area where judgments have been made that may have a significant effect on the amounts recognized in the consolidated financial statements.

Also, in assessing for impairment, judgment is required in determining the aggregation of the Company's assets into CGUs, which is based on economic and commercial influences as well as the interdependence of cash inflows of the Company's operating facilities. The Company has determined that its operations comprise of a single CGU.

Estimations and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Employee benefit commitment

The employee benefit commitment resulted from the emergence from CCAA on June 30, 2017. This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each reporting period to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions.

Employee Future Benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and projected retirement age. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

Allowance for Doubtful Accounts

Estimates are used in determining the allowance for doubtful accounts related to trade receivables. The estimates are based on management's best assessment of the collectability of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect trade receivables and office and other operating expenses.

Impairment and Impairment Reversals

The Company evaluates each asset or CGU in each reporting period to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs. Accordingly, it is possible that some or the entire carrying amount of the assets or CGUs may be further impaired or the impairment charge reversed with the impact recognized in the consolidated statements of loss and comprehensive loss.

Income Taxes

The Company is subject to income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Going concern

We believe that there is currently no uncertainty with respect to the Company's ability to continue as a going concern. The successful completion of emergence from CCAA, the sale of Stelco Inc. to Bedrock, cash flow from operations and available liquidity from an asset backed facility support the Company's ability to continue as a going concern and finance its near-term capital programs.

Changes in accounting policies including initial adoption

New accounting pronouncements are issued periodically that affect our current and future operations. We intend to adopt these standards when they become effective.

IFRS 9 Financial instruments

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 Company has evaluated the implications of adopting IFRS 9 and does not expect it to have a material impact on the consolidated financial statements. Based on an evaluation of the financial instruments held and economic conditions as at December 31, 2017, the measurement of the Company's financial instruments is expected to be substantially similar with measurement under current guidance. IFRS 9 also amends and expands the disclosure requirements under IFRS 7 and the Company is currently in the process of evaluating responsive disclosures for implementation of the standard.

IFRS 15 Revenue from Contracts with Customers

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 with early adoption permitted. The Company will adopt the new standard on the required effective date using the modified retrospective application method with no restatement of comparative information. The Company has evaluated the implications of adopting IFRS 15 and does not expect it to have a material impact on the consolidated financial statements. Based on an evaluation of the current contracts and revenue streams, the timing and amount of revenue recorded under IFRS 15 is expected to be substantially similar with treatment under current guidance. IFRS 15 also provides for enhanced disclosure requirements surrounding revenue recognition and the Company is currently in the process of evaluating responsive disclosures for implementation of the standard.

IFRS 16 Leases

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* (IFRIC 4), 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 consolidated financial statement implications of adopting IFRS 16.

IFRIC 23 Uncertainty over Income Tax Treatments

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.

Risks and Uncertainties

Summary of factors that could impact our future financial performance

We believe our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below.

Industry Trends

Our business is subject to changing industry trends. The success of new product offerings or enhancements depends upon a number of factors, including our ability to: (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products in a timely manner; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and in a timely manner; and (vi) differentiate product offerings from those of our competitors.

Customer Trends

The North American steel industry is subject to shifts in automotive industry trends, oil and gas drilling, pipeline transmission, general construction activity, as well as consumer preferences and spending. Our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. As a result of our broad product scope and our adaptive capabilities, we believe that we are well-positioned to respond to these shifts in sector performance, consumer trends, preferences and spending.

Market Pricing

Our business is subject to the market pricing trends in the industry; competition, global trade, imports, customer trends, and concentration can affect the price of steel as the market reacts to the various supply and demand influences these factors create in the market.

Customer Concentration

We have built long-lasting relationships with our customers driven by our ability to consistently produce high-quality steel products that meet customer requirements. The average length of our relationships with our top 10 customers exceeds 20 years and, in some cases, such relationships extend over multiple decades. Our customer relationships provide us with stability and visibility into our future volumes and earnings, which we believe provides us with a competitive advantage relative to our competitors. For the year ended December 31, 2017, our five largest customers accounted for approximately 58% of revenue during that period. While the loss of one or more major customer could have a significant impact on the Company’s financial performance, we believe this risk is partially mitigated by the strength and tenor of our relationships.

Competition

The market for steel products is highly competitive. Our direct competition consists of steel manufacturers worldwide as well as in Canada and the United States. Our competition varies by market and we have a strategic approach to entering markets, which includes evaluating certain factors in each market, such as competitiveness, pricing dynamics, foreign exchange, growth potential and regulatory environment.

Global Overcapacity, Imports and Trade Remedies

The North American steel industry is challenged by unfairly-traded offshore imports that result in part from substantial overcapacity in global steel production. As a result, dumped and subsidized imports into the North American market have historically reduced demand for our products and placed downward pressure on North American price levels.

The Canadian steel industry has worked with the Canadian government to modernize the North American trade remedy system to ensure that North American producers have access to the appropriate tools to respond to unfair trade. The 2017 Canadian Federal Budget proposed a number of amendments to the *Special Import Measures Act* and related trade remedy regulations to strengthen the trade remedy system, while remaining aligned with international trade rules. The legislative amendments were approved by Parliament and received Royal Assent on June 22, 2017, with an expectation that they will be put into force in the near term.

We are subject to changing trade rules in other jurisdictions where we conduct business, including the United States. For example, the outcome of trilateral negotiations regarding the North American Free Trade Agreement (NAFTA) could have an impact — either positive or negative — on the domestic market for both Canadian steel producers and our customers.

On February 16, 2018, the United States Department of Commerce released its Report regarding the Section 232 investigation conducted under the Trade Expansion Act of 1962. The recommendations in the Report are intended to adjust the level of steel imports into the United States as it has been determined that those imports are an impairment to national security. Under the statute, President Trump has until April 11, 2018, to announce his intention to adopt, modify or take no action based upon these recommendations. While the imposition of either tariffs or quotas on steel imports into the United States from Canada presents a potential risk, we believe this risk may be mitigated by our continued focus on the development of additional markets for our products. In addition to the risk presented by either tariffs or quotas, there is associated risk of steel imports traditionally destined for the United States being diverted into the Canadian market which could impact domestic demand and pricing.

Unplanned Repairs or Equipment Outages

It is possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. We are also exposed to similar risks involving major customers and suppliers such as force majeure events of raw materials and other supplies that have occurred or may occur in the future. Availability of raw materials and inputs, and delivery of products to customers could be affected by logistical disruptions, such as limited availability of barges, lake and ocean vessels, rail cars or trucks, or unavailability of rail lines or navigable bodies of water. To the extent that lost production cannot be compensated and depending on the length of the outage, our sales and our production costs could be adversely affected.

The Company has a comprehensive preventative maintenance program designed to help prevent unexpected events and avoid unplanned outages. As part of the program the Company maintains alarm systems and backup capabilities for timely reaction and prevention of production interruption. Regular capital expenditures are made to prevent equipment obsolescence, a major cause of equipment failure. As part of inventory management, the Company can maintain a bank of inventory for critical customers to ensure no disruption in the supply chain and has an established protocol and supplier base to purchase slabs. However, notwithstanding these measures it remains possible that unplanned repairs or equipment outages could have a material adverse effect on our business, financial condition or results of operations.

Third Party Transportation

Our business depends on the transportation of a large number of products within North America. We rely primarily on third party providers for transportation of the products we manufacture as well as delivery of our raw materials. Any increase in the cost of the transportation of our raw materials or products as a result of increases in fuel or labour costs, higher demand for logistic services, consolidation within the transportation industry or otherwise, may adversely affect our results of operations as we may not be able to pass such cost increases onto our customers.

If any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture and deliver our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at a reasonable cost or time frame.

In addition, such failure of a third-party transportation provider could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our financial position and results of operations.

Sourcing and Production

We have developed a strong, North American supply chain based on long-standing relationships. The majority of our suppliers have had a relationship with us for several decades. We purchase our raw materials from high quality suppliers predominantly located in North America and depend on a stable and consistent supply of raw materials and inputs. Although raw materials and inputs are generally available from multiple sources, certain materials and inputs are sourced from a restricted number of suppliers. The price and availability of such raw materials and inputs are subject to market forces where we do not have ownership interests and, in some cases, to government regulations and, accordingly, are subject to fluctuations. Such fluctuations may increase our costs, which in turn could impact profitability.

Raw Material Logistics

The Company ships substantial quantities of raw materials across the Great Lakes. During the winter months, shipping lanes are often inaccessible due to ice. As a result, the Company typically builds its metallurgical coal and iron ore inventories throughout the summer and fall months in order to have adequate raw materials during the winter and early spring months. A severe winter or an extended winter season could impact ice volumes on the Great Lakes and negatively impact raw material availability at our manufacturing facilities. Buying raw materials from alternative suppliers or shipping by truck or rail may increase our costs, which in turn could impact profitability.

Liquidity

Our inventory cycle requires significant spend in the months leading up to winter to ensure we have adequate metallurgical coal and iron ore available for winter production needs. During the winter and early spring months, the raw materials purchased during the summer and fall months are converted to finished goods and sold to customers, improving the Company’s liquidity. The Company has access to the ABL credit facility, an asset-based revolving credit facility with borrowing capacity of up to $375 million, limited at any time to a percentage of existing inventory and trade accounts receivable levels. If the Company’s liquidity needs exceed the available cash and availability under the ABL credit facility, it could negatively impact our ability to purchase raw materials and ultimately impact customer sales.

Foreign Exchange

Our functional currency is the Canadian dollar (CAD) because the majority of our revenue and purchases are in that currency. We do have transactions denominated in U.S. dollar (USD) because we sell into the U.S. market and purchase goods and services from the U.S. As a result, changes in CAD to USD exchange rate can impact our business and result in foreign currency gains or losses. It should be noted that our USD denominated purchases exceed our USD denominated revenue in a fiscal year. It should also be noted that many of our domestic customers export their products into the U.S. Thus, a stronger CAD can cause those customers to be less competitive in the U.S. and thereby influence the customers to resist price increases or request steel price reductions from the Company. Also, U.S. exports of steel into Canada have historically forced domestic steel prices in CAD downward. In addition, the North American benchmark for spot market prices for certain products such as hot-rolled coil, are determined in USD. On July 28, 2017, Stelco Inc. entered into forward hedging arrangements to hedge the conversion of a portion of USD denominated revenue. Under the terms of the hedging arrangements, Stelco Inc. agreed to sell an aggregate of up to $45 million U.S. dollar calls and Canadian dollar puts and purchase up to $90 million in U.S. dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018.

Information Systems and Support Services

While owned by USS, Stelco Inc. received certain support services such as information technology, financial reporting, corporate finance and treasury, risk management, as well as other key functions in the business. Stelco Inc. is in the process of fully separating from USS support services by enhancing its own support organization to cover the noted functions. This effort has included adding key personnel and implementing the required information and reporting systems. As part of that effort, Stelco Inc. is implementing a new ERP system, an effort that is anticipated to be completed by the end of 2018. Stelco Inc. will continue to utilize USS systems under one of the transition services agreements until the new system is fully operational.

Failure to successfully migrate the necessary information technology from USS' systems to a stand-alone system for the Company, or a significant disruption in the information technology systems during the decoupling of the USS system, could result in a lack of data and processes to enable management to effectively manage day-to-day operations of the Company or achieve its operational objectives, causing significant disruptions to the Company and may materially adversely affect our operational and financial results.

Environmental Compliance

We are subject to substantial and evolving environmental laws, regulations and other requirements relating to, among other things, emissions into the air, discharges to water or land, noise control, and the generation, handling, storage, transportation and disposal of hazardous substances. These laws, regulations and other requirements vary depending on the location of the facility and can fall within federal, provincial, or municipal jurisdictions. We believe that future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on our financial position. In addition, we believe that our plans to increase production to use our substantial excess capacity will not be materially affected by the applicable environmental requirements, including the air emissions requirements. There is always the possibility, however, that unforeseen changes (such as in enforcement policies of relevant government bodies), or the discovery of circumstances (such as changed conditions on our real property or our operations), could result in an increase in the costs of environmental compliance that could result in a material adverse effect on our financial position.

Under Ontario's environmental regulations, we are subject to certain limits on the amount and degree of emissions that are emitted into the atmosphere at both LEW and HW. These limits are based on the total land area that our operations occupy and as such were set prior to the reduction of our land footprint resulting from the certain lease arrangements entered during 2017. These limits are currently based on a larger land area than we occupy today. Given our reduced land area footprint at both LEW and HW these limits may be reduced from current authorized levels. As a result, we may incur additional costs or be required to deploy mitigation measures or reduce our operations to ensure we comply with these revised limits. These costs may be significant and we may be required to modify our production processes to comply with these revised limits, which may have a material effect on our business and operations.

Our business is required to have environmental permits and approvals issued by governments. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect our operations and may subject us to penalties. In addition, if environmental requirements are amended or are interpreted or enforced differently, or if new environmental requirements are enacted, we may be required to obtain additional operating permits or approvals, incur additional costs and our operations (including production) may be affected. There can be no assurance that we will be able to meet all applicable regulatory requirements or conduct our operations as we desire. In addition, we may be subject to fines, penalties or other liabilities arising from its actions imposed under environmental legislation or regulations. For example, construction and operation of new production facilities and modifications to existing facilities may require environmental permits and approvals from the appropriate regulatory agencies. Compliance with the environmental permitting and approval requirements may be costly and time consuming and could result in delays or other adverse impacts on planned projects, our results of operations and cash flows.

We could also incur material liability in connection with environmental contamination and stockpiled materials related to our past, present and future actions. We have tried to mitigate this exposure by obtaining the release from, and by entering into an Environmental Framework Agreement with, the Province of Ontario. Both the release and

Environmental Framework Agreement impose obligations on Stelco, including that it undertake any construction, maintenance or spill response that could impact such contamination or materials with due diligence and that Stelco not be negligent in its on-going operations. If Stelco does not fulfill its obligations, it may be held liable by the MOECC to remediate or otherwise manage such contamination and materials at the HW and LEW lands. Such remediation and other work could result in material liability to the Company.

Notwithstanding, even if Stelco receives the intended benefit of the release and Environmental Framework Agreement with respect to historic contamination and stockpiled materials, we may still be subject to other significant environmental liabilities. For example, we may be subject to claims by other third parties (including neighbours or others affected by its contamination) as well as actions by regulators other than the Province of Ontario (such as, federal and municipal regulators). These claims and regulatory actions may relate to contamination that migrated from lands used by Stelco into other person's lands, as well as into water. Also, the release and Environmental Framework Agreement only cover the HW and LEW lands and associated contaminant migration. As a result, we retain exposure for contamination in respect of other previously owned properties. We could incur material liability related to remediating and otherwise managing contamination and stockpiled materials now or in the future which could have a material adverse effect on business and results of operation.

On June 30, 2017, the Province of Ontario was paid US$61 million for the purposes of addressing historical environmental contamination, if any.

Going forward, environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve existing assets' environmental safety or efficiency. The Company provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably estimable. The timing of remediation accruals typically coincides with completion of studies defining the scope of work to be undertaken or when it is probable that a formal plan of action will be approved by the oversight agency. Remediation liabilities are accrued based on estimates of believed environmental exposure and are discounted if the amount and timing of the cash disbursements are readily determinable.

Risk factors

The Company is also exposed to market risk including foreign interest rate risk, market risk in certain commodities, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates arises from long-term debt obligations issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk.

Market risk — commodities

The Company is exposed to price risk related to purchases of certain commodities used as raw materials, including iron ore and coal. The Company may use fixed price contracts with suppliers to mitigate commodity price risk. Specifically, concurrent with the Company's emergence from CCAA, Stelco has entered into an agreement with USS to purchase all of its iron ore requirements through January 31, 2022. This agreement contains a fixed price which is adjusted quarterly based on changes in specified indices.

Concentration of credit and business risks

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables in the event of non-payment by customers, principally within the container, construction, automotive and steel service center industries) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Company has a policy of only dealing with creditworthy counterparties. Changes in the industries in which the Company's customers operate may significantly affect the Company's financial performance and management's estimates of allowance for doubtful accounts. The Company mitigates its exposure to credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, credit insurance, prepayments, guarantees or other collateral.

Customer credit risk is managed by the Company based on an established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating process and individual credit limits are defined in accordance with this assessment. An analysis for uncollectible amounts is performed as at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are categorized into homogeneous groups and assessed for impairment collectively. The calculation is largely based on historical experience of the Company.

Market risk — foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities when revenue or expenses are denominated in a foreign currency.

It should also be noted that many of our domestic customers export their products into the U.S. Thus, a stronger Canadian dollar can cause those customers to be less competitive in the U.S. and thereby influence the customers to resist price increases or request steel price reductions from the Company. Also, U.S. exports of steel into Canada have historically forced domestic steel prices in Canadian dollars downward. In addition, the North American benchmark for spot market prices for certain products such as hot-rolled coil, are determined in U.S. dollars.

On July 28, 2017, the Company entered into forward hedging arrangements to hedge the conversion of a portion of USD denominated revenue. Under the terms of the hedging arrangements, the Company agreed to sell an aggregate of up to $45 million USD calls and CAD puts and purchase up to $90 million in USD puts and CAD calls in specified tranches between August 30, 2017 and July 30, 2018.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's process for managing liquidity risk includes ensuring that, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due.

The Company monitors its risk of a shortage of funds by following internal policies on the completion of various liquidity planning processes. The Company also continues to prepare a quarterly cash flow analysis to identify any potential shortfall of funds and the mitigation strategy in such circumstances. Potential sources for liquidity could include, but are not limited to: the Company's current cash position, the existing ABL facility and inventory monetization arrangement, future operating cash flows, and future potential private and public financings.

Corporate Information

Executive Management

Alan Kestenbaum
Chief Executive Officer

Don Newman
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

David Cheney
Chief Business Development Officer

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

Alan Kestenbaum
Executive Chairman and
Chief Executive Officer for Stelco Holdings Inc.

Michael W. Dees [4]
Partner, Lindsay Goldberg

Jeffrey B. Bunder [2]
Partner and Chief Financial Officer, Lindsay Goldberg

Dr. Thomas Ludwig
Managing Partner of Lindsay Goldberg Vogel, an affiliate partner of Lindsay Goldberg

Brian Levitt [2,3]
Chairman of the Board of Directors of the Toronto-Dominion Bank

Peter Bowie [1]
Corporate Director

1 Chair of the Audit Committee.
2 Member of the Audit Committee.
3 Chair of the Compensation, Governance and Nominating Committee.
4 Member of the Compensation, Governance and Nominating Committee.

Shareholder and Investor Contact

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