Consolidated financial statements

Stelco Inc.

December 31, 2017, and 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Stelco Inc.

We have audited the accompanying consolidated financial statements of Stelco Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of income (loss), comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Stelco Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 21, 2018

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Stelco Inc.

Consolidated statements of income (loss)

(In millions of Canadian dollars)

Years ended December 31

	2017	2016
	$	$
Revenue from sale of goods	**1,601**	1,301
Commission income	**—**	1
	1,601	1,302
Cost of goods sold *(notes 8 and 17)*	**1,409**	1,287
Gross profit	**192**	15
Selling, general and administrative expenses *(note 18)*	**77**	24
Operating income (loss)	**115**	(9)
Finance costs *(note 16)*	**154**	197
Finance income	**(1)**	(1)
Share of loss of joint ventures *(note 11)*	**2**	1
Gain on disposal of property, plant and equipment	**—**	(2)
Restructuring and other costs	**38**	36
Gain on emergence from CCAA *(note 25)*	**(3,653)**	—
Other income	**(4)**	(4)
Income (loss) before income taxes	**3,579**	(236)
Income tax expense *(note 19)*	**—**	—
Income (loss) for the year	**3,579**	(236)

See accompanying notes to the consolidated financial statements

Stelco Inc.

Consolidated statements of comprehensive income (loss)

(In millions of Canadian dollars)

Years ended December 31

	2017	2016
	$	$
Income (loss) for the year	**3,579**	(236)
Other comprehensive income (loss)		
Items that are not recycled or reclassified to income (loss):		
Remeasurement gains (losses) on pension benefit obligations, net of income tax *(note 20)*	**(53)**	60
Other comprehensive income (loss) for the year, net of income taxes	**(53)**	60
Total comprehensive income (loss) for the year, net of income taxes	**3,526**	(176)

See accompanying notes to the consolidated financial statements

Stelco Inc.

Consolidated statements of financial position

(In millions of Canadian dollars)

As at December 31,	2017 $	2016 $
Assets		
Current		
Cash and cash equivalents *(note 6)*	**45**	188
Restricted cash	**12**	9
Trade and other receivables *(note 7)*	**203**	237
Inventories *(note 8)*	**448**	314
Prepaid expenses *(note 9)*	**18**	47
Total current assets	**726**	795
Property, plant and equipment, net *(note 10)*	**305**	378
Investment property	**—**	21
Investment in joint ventures *(note 11)*	**4**	6
Total non-current assets	**309**	405
Total assets	**1,035**	1,200
Liabilities and equity (deficiency)		
Current		
Trade and other payables *(note 12)*	**310**	457
Current portion of long-term debt *(note 21)*	**—**	1,822
Other liabilities *(note 13)*	**33**	1,172
Employee benefit commitment *(note 21)*	**32**	—
Total current liabilities	**375**	3,451
Provisions *(note 14)*	**5**	5
Pension and other post-employment benefits *(note 20)*	**—**	1,030
Other liabilities *(note 13)*	**34**	1
Employee benefit commitment *(note 21)*	**312**	—
Total non-current liabilities	**351**	1,036
Total liabilities	**726**	4,487
Equity (deficiency)		
Common shares *(note 15)*	**2,325**	2,325
Contributed surplus	**500**	430
Retained deficit	**(2,516)**	(6,042)
Total equity (deficiency)	**309**	(3,287)
Total liabilities and equity	**1,035**	1,200

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors
(signed) "*Alan Kestenbaum*", Director

(signed) "*Sujit Sanyal*"", Director

Stelco Inc.

Consolidated statements of cash flows

(In millions of Canadian dollars)

Years ended December 31

	2017	2016
	$	$
Operating activities		
Income (loss) for the year	**3,579**	(236)
Adjustments to reconcile income (loss) to cash provided by (used in) operating activities:		
Depreciation	**28**	29
Interest expense and foreign exchange	**100**	192
Gain on disposal of property, plant and equipment	**—**	(2)
Share of loss of joint ventures	**2**	1
Provision for pension and other post-employment benefits	**26**	60
Payments to creditors under CCAA *(note 25)*	**(237)**	—
Gain on emergence from CCAA *(note 25)*	**(3,653)**	—
Bad debt expense	**1**	—
Changes in non-cash working capital balances related to operations:		
Trade and other receivables	**(66)**	31
Inventories	**(134)**	(32)
Prepaid expenses	**29**	3
Trade and other payables	**104**	(3)
Other liabilities	**21**	(3)
Employee benefit commitment *(note 21)*	**15**	—
Provisions	**1**	3
	(30)	(1)
Cash provided by (used in) in operating activities	**(184)**	43
Investing activities		
Purchases of property, plant and equipment	**(37)**	(18)
Decrease (increase) in restricted cash	**(3)**	1
Cash used in investing activities	**(40)**	(17)
Financing activities		
Repayment of long-term debt	**(320)**	—
Proceeds of long-term debt	**210**	—
Proceeds from inventory monetization arrangement, net *(note 12)*	**121**	
Proceeds from owner's contribution	**70**	**—**
Cash provided by financing activities	**81**	—
Net increase (decrease) in cash and cash equivalents	**(143)**	26
Cash and cash equivalents, beginning of year	**188**	162
Cash and cash equivalents, end of year	**45**	188

See accompanying notes to the consolidated financial statements

Stelco Inc.

Consolidated statements of changes in equity (deficiency)

(In millions of Canadian dollars except shares)

	Number of common shares *(note 15)*	Amount of common shares *(note 15)*	Contributed surplus	Retained deficit	Total equity (deficiency)
	#	$	$	$	$
As at December 31, 2015	345	2,325	430	(5,866)	(3,111)
Loss for the year	—	—	—	(236)	(236)
Other comprehensive income	—	—	—	60	60
Total comprehensive loss	—	—	—	(176)	(176)
As at December 31, 2016	345	2,325	430	(6,042)	(3,287)
Income for the year	—	—	—	3,579	3,579
Other comprehensive loss	—	—	—	(53)	(53)
Total comprehensive income	—	—	—	3,526	3,526
Equity contribution from owners	—	—	70	—	70
As at December 31, 2017	**345**	**2,325**	**500**	**(2,516)**	**309**

See accompanying notes to the consolidated financial statements

Notes to consolidated financial statements

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

December 31, 2017 and 2016

1. Corporate information

Business description

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) ("Stelco" or the "Company") is principally engaged in the production and selling of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction and pipe and tube industries in North America. Stelco is incorporated under the laws of the federal government of Canada, with its head office located at 386 Wilcox Street, Hamilton, Ontario.

Stelco is a wholly owned subsidiary of Stelco Holdings Inc. ("Stelco Holdings"). Stelco Holdings is incorporated under the *Canada Business Corporations Act* and completed its initial public offering on November 10, 2017. Its common shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol STLC. Stelco Holdings' majority shareholder is Bedrock Industries L.P. ("Bedrock"), which indirectly owns approximately 85% of the common shares through Bedrock Industries B.V.. The principal limited partners of Bedrock are LG Bedrock Holdings LP, a Delaware limited partnership (''LG Bedrock''); and AK Bedrock LLC, a Delaware limited liability company wholly owned by Alan Kestenbaum. The General Partner of Bedrock is Bedrock Industries GP LLC, a Delaware limited liability company whose sole member is LG Bedrock. LG Bedrock's general partner is LG Bedrock Holdings GP LLC, a Delaware limited liability company.

The ultimate parent of Stelco was Bedrock for the period from June 30, 2017 to November 10, 2017 as more fully explained below.

CCAA history

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

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

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

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

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

Upon emergence from CCAA, on June 30, 2017, Bedrock indirectly acquired substantially all of Stelco's operating assets and business on a going concern basis through acquisition of all of the outstanding shares of Stelco.

On September 25, 2017, a wholly-owned subsidiary of Bedrock, Bedrock Industries B.V. formed a wholly owned subsidiary, Stelco Holdings, for the purposes of acquiring Stelco and completing a public offering of its common shares. On November 10, 2017, Stelco Holdings completed a public offering and also acquired all of the issued and outstanding shares of Stelco on this date from Bedrock Industries B.V. under a common control transaction, resulting in Stelco becoming a wholly owned subsidiary of Stelco Holdings.

2. Basis of presentation

Statement of compliance

The accompanying consolidated financial statements of Stelco have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts included in these consolidated financial statements are presented in millions of Canadian dollars, except where otherwise indicated.

These consolidated financial statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 21. Significant accounting policies are presented in note 3 to these consolidated financial statements and have been consistently applied in each of the periods presented.

These consolidated financial statements of Stelco were authorized for issue in accordance with a resolution of the directors on February 21, 2018.

Notes to consolidated financial statements

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

December 31, 2017 and 2016

3. Summary of significant accounting policies

Principles of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses and gains or losses have been eliminated on consolidation. Subsidiaries are consolidated where the Company has the ability to exercise control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control. The Company's subsidiaries include:

- The Steel Company of Canada Limited
- The Stelco Plate Company Ltd.
- Stelco Algae Holdings Inc.

On August 8, 2017, former subsidiaries of the Company, 4347226 Canada Inc., U. S. Steel Tubular Products Canada GP Inc. and U. S. Steel Tubular Products Canada Limited Partnership were dissolved.

Joint arrangements

A joint arrangement is defined as an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement between two or more parties. This exists only when the decisions about the relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Company's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. Stelco's 50% interest in Baycoat Limited Partnership ("Baycoat") and 50% interest in D.C. Chrome Limited ("DC Chrome") have been accounted for as joint ventures. The consolidated statements of income (loss) reflects the Company's share of the profit or loss of the joint ventures. Any change in other comprehensive income (loss) ("OCI") of those investees is presented as part of the Company's OCI. When there has been a change recognized directly in the equity of the joint ventures, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the joint ventures are eliminated to the extent of the interest in the joint ventures. The financial statements of the joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company evaluates impairment of its equity method investments whenever circumstances indicate that there is objective evidence that an investment in a joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value.

Foreign currency translation

The functional currency of the Company, for each subsidiary and for joint arrangements, is the currency of the primary economic environment in which it operates. The functional currency of all of the Company's operations is the Canadian dollar.

Once the Company determines the functional currency of an entity, it is not changed unless there is a change in the relevant underlying transactions, events and circumstances. Any change in an entity's functional currency is accounted for prospectively from the date of the change, and the consolidated statements of financial position are translated using the exchange rate as at that date.

At the end of each reporting period, the Company translates foreign currency balances as follows:

- Monetary items are translated at the closing rate in effect as at the consolidated statements of financial position date;
- Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Items measured at fair value are translated at the exchange rate in effect at the date the fair value was measured; and
- Revenue and expenses are translated using the exchange rate at the date of the transaction.

Differences arising on settlement or translation of monetary items are recognized in profit or loss. The gain or loss arising on translation of non-monetary items measured at fair value are treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss, are also recognized in OCI or profit or loss, respectively).

Cash and cash equivalents

Cash and cash equivalents comprises cash at banks and on hand, as well as short-term deposits with a remaining maturity as of the date of acquisition of three months or less, which are subject to an insignificant risk of changes in value. The Company places its cash and short-term deposits in high quality overnight deposits issued by government agencies, financial institutions and major corporations, and limits the amount of credit exposure by diversifying its holdings.

Restricted cash

As part of the CCAA arrangement, restricted cash is required to be maintained as financial assurances held for, the Ministry of the Environment, and various other required disbursements held by the Monitor.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost to complete are based on management's best estimate as at the consolidated statements of financial position date. A net realizable value impairment may be reversed in a subsequent period if the circumstances that triggered the impairment no longer exist.

The cost of raw materials, semi-finished products and finished products are determined based on a first in, first out basis. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence. Costs of finished products include direct costs of materials, an appropriate share of production overhead, and labour related directly to processing activities. Abnormal costs are expensed in the period incurred.

Financial instruments

The Company's financial assets and liabilities ("financial instruments") include cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables, current portion of long-term debt, as well as employee benefit commitments.

The Company classifies its financial instruments into the following categories:

- Loans and receivables
- Fair value through profit or loss
- Financial liabilities carried at amortized cost

Appropriate classification of financial instruments is determined at the time of initial recognition or when reclassified in the consolidated statements of financial position.

Financial instruments are recognized on the trade date, being the date on which the Company becomes a party to the contractual provisions of the instrument.

Receivables are categorized as loans and receivables and include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are included within trade and other receivables in the consolidated statements of financial position as well as other non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment.

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 discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value involves making various assumptions. These include the determination of the expected cash flows and discount rate. 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. Further details about the assumptions used are provided in note 21.

Trade and other payables, current portion of long-term debt, the employee benefit commitment as well as the finance lease obligations are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the consolidated statements of income (loss). The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled.

Derivative financial instruments are classified as fair value through profit or loss and are recognized at fair value with changes in fair value recognized in profit or loss. The Company uses derivative financial instruments to manage its risks related to foreign currency exchange rate fluctuations. The Company does not apply hedge accounting. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative in the consolidated statements of financial position. The fair value of derivative instruments is recorded in trade and other payables.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, such as relining of a blast furnace, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are expensed as incurred.

Property, plant and equipment that consist of parts that have a cost that is significant in relation to the item of property, plant and equipment to which it relates are treated as separate components of an item of property, plant and equipment and depreciated on a straight-line basis during the estimated period of service, taking into account any residual value at the end of the period. Division into different components occurs only if major components with divergent useful lives can be identified. Land is not depreciated. Major repairs and upgrades are recognized separately and depreciated over their useful lives.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income (loss) when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and any changes are adjusted prospectively. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	35 years
Machinery and equipment	5 – 40 years
Vehicles	4 – 6 years

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. When a lease includes both land and building elements, the classification of each element as a finance or an operating lease is assessed separately to the extent that the land element is material.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of income (loss).

The finance lease assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Assets held under leases that are not classified as finance leases are classified as operating leases and are not recognized in the Company's consolidated statements of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the total lease expense over the term of the lease.

Government grants

Government grants are recognized in the consolidated financial statements when there is reasonable assurance of the Company's compliance with the conditions for receiving such grants and that the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the related costs that they are intended to offset.

A government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan (fair value plus transaction costs) and the proceeds received, and it is accounted for in accordance with the policies used for the recognition of government grants.

Emission allowances

Ontario's Cap and Trade Program under the Climate Change Mitigation and Low-carbon Economy Act, 2016 (the "Cap and Trade" program), sets out a framework for the reduction in greenhouse gas ("GHG") emissions for the province of Ontario, which came into effect on January 1, 2017. The legislation establishes targets for the reduction of GHG emissions and requires the Ontario government to prepare an action plan to achieve those targets. Stelco is a mandatory participant in the program as the Company emits more than 25,000 tonnes of GHG per year and is

considered a large final emitter. The first compliance period for Ontario's Cap and Trade program is January 1, 2017 to December 31, 2020 in which most large final emitters are expected to receive most of the emission allowances they require free of charge, with the number of allowances allocated decreasing each year.

The Company has received free GHG emission allowances in 2017 which are reasonably expected to exceed the Company's GHG emissions during the year. The allowances are granted on an annual basis and, in return, the Company is required to remit allowances equal to its actual emissions at the end of the compliance period. In the absence of specific IFRS guidance, the Company has adopted the net liability approach, whereby a provision is only recognized when actual emissions exceed the emission allowances granted and held for the current compliance period.

Impairment of non-financial assets

For property, plant and equipment, the Company assesses, as at each reporting date, whether there is an indication that an asset may be impaired. If an indicator of impairment exists, the Company assesses impairment by estimating the asset's recoverable amount, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined at the cash generating unit ("CGU") level. A CGU is a single asset or a group of assets with independent cash inflows. The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Impairment losses are recognized in the consolidated statements of income (loss).

An assessment is made as at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income (loss).

Impairment of financial assets

A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing financial difficulty, which may include default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganization, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears payments or economic conditions that correlate with defaults.

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible. When an impaired loan or receivable is identified, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. This difference between the carrying amount and the estimated realizable value of the loan or receivable represents an impairment loss that is recognized in net income (loss).

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in net income (loss).

Provisions

The Company's provisions are comprised of environmental remediation and termination benefits. The provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statements of income (loss) net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Pension and other employee benefits

The Company sponsors multiple defined benefit pension plans including compensated absences benefit plans, which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment healthcare benefits. The post-employment benefits plans are unfunded.

The obligations and costs of providing benefits under the defined benefit plans are determined using the projected unit credit method.

Service costs including past service, gains and losses from curtailment and non-routine settlements and net interest are recognized through profit or loss. Actuarial gains and losses resulting from remeasurements are recognized immediately through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Fair value is based on market price information, and in the case of quoted securities, is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Income taxes

Current and deferred tax expense is recognized in the consolidated statements of income (loss), unless it relates to items recognized outside the consolidated statements of income (loss). Current and deferred tax expense relating to items recognized outside of the consolidated statements of income (loss) is recognized in correlation to the underlying transaction in either OCI or equity.

Current tax expense is based on substantively enacted statutory tax rates and tax laws as at the consolidated statements of financial position date.

Deferred tax is provided using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized, within their respective expiry periods. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed as at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed as at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been substantively enacted as at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Other than the limited risk distribution arrangement, the Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

Revenue from the sale of goods includes sale of goods from the Company's production of steel products. Other income includes commission income when the Company has acted as an agent for U. S. Steel for the sale of their steel products in Canada. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on shipment of the products from the Company's steel production facilities. Revenue from sale of goods under bill and hold arrangements is recognized when the buyer takes title to the goods and accepts billing, it is probable that the delivery will be made, the item is on hand, identified and ready for delivery, the buyer specifically acknowledges the deferred delivery instructions, and the usual payment terms apply.

Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Shipping and other transportation costs charged to buyers are recorded in both sales and the related costs recorded in cost of sales.

Stelco entered into a limited risk distribution arrangement with its former parent, U. S. Steel, to distribute certain products. Stelco does not have the ability to establish pricing, nor is it primarily responsible for fulfilling the purchase orders that are submitted by the customer, and it does not bear any credit risk associated with any transaction that has been approved by U. S. Steel. Furthermore, Stelco, as the distributor in these arrangements receives a 2% commission. Stelco is an agent in this arrangement and has recognized revenue on a net basis.

Rental income from investment property is recognized on a straight-line basis over the term of the lease. Lease incentives are recognized over the term of the lease.

Investment property

The Company owned 6,600 acres of land situated on the shores of Lake Erie near Nanticoke, Ontario. Since the 1970's, just over 2,000 acres of this land has been used for operations of the Lake Erie Works ("LEW"), with the remaining land leased to farmers and classified as investment property.

The Company elected to measure the investment property at cost, less accumulated depreciation and any accumulated impairment losses, which is consistent with its policy for property, plant and equipment. The fair value of the Company's investment property was determined by an external valuator to be $21 at January 1, 2014. The fair value of the investment property as at December 31, 2016 did not differ materially from the fair value determined as at January 1, 2014.

As part of the emergence from CCAA, effective June 30, 2017, Stelco transferred all of the investment property to an independent entity, Legacy Lands Limited Partnership (the "Land Vehicle"), formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities (refer to note 25).

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, which is described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 – Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable, supported by little or no market activity.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

For items that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing their classification at the end of each reporting period.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

4. New accounting pronouncements

Standards and amendments issued that are effective prior to, and subsequent to, the date of issuance of these consolidated financial statements, are described below. The following discussion is of the standards, amendments and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

IFRS 9, Financial Instruments (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard contains requirements in the following areas: classification and measurement; impairment; hedge accounting and de-recognition. The 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”)

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”)

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. Obligations under operating leases would be recorded on the consolidated statements of financial position. 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 (“IFRIC 23”)

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

Other than the above, there have been no additional accounting pronouncements issued by the IASB that would have a material impact on the Company’s consolidated financial statements.

5. Significant accounting judgments, estimations and assumptions

The preparation of the Company's consolidated financial statements requires management 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.

Pension and other post-employment 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. Further details about the assumptions used are provided in note 20.

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. Further details about the assumptions used are provided in note 21.

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 other operating expenses. Refer to note 7 for the carrying value of allowance for doubtful accounts.

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 income (loss) and comprehensive income (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. Refer to note 19 for the carrying value of current and deferred income tax assets and liabilities.

6. Cash and cash equivalents

Stelco's cash and cash equivalents as at December 31 are as follows:

	2017 $	2016 $
Cash at banks	**10**	5
Short-term deposits	**35**	183
Total cash and cash equivalents	**45**	188

7. Trade and other receivables

Stelco's trade and other receivables as at December 31 are as follows:

	2017 $	2016 $
Trade receivables	**202**	235
Other receivables	**3**	4
Allowance for doubtful accounts	**(2)**	(2)
Total trade and other receivables	**203**	237

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

As at December 31, the ageing of trade receivables and receivables from related parties is as follows:

			Past due but not impaired		
	Total $	<30 days $	30 – 60 days $	61 – 90 days $	>91 days $
December 31, 2017	**203**	**201**	—	—	**2**
December 31, 2016	237	125	(1)	1	112

See note 22 for credit risk of trade receivables, which explains how the Company manages and measures the credit quality of trade receivables that are neither past due nor impaired.

8. Inventories

Stelco's inventories as at December 31 are as follows:

	2017 $	2016 $
Raw materials	**231**	174
Semi-finished products	**163**	84
Finished products	**36**	40
Spare parts	**18**	16
	448	314

During 2017, $1,250 (2016 – $1,108) of inventories was recognized as an expense in cost of goods sold. During 2017, $nil (2016 – $nil) was recognized in cost of goods sold for a write-down of inventories to net realizable value.

9. Prepaid expenses

Prepaid expenses as at December 31 are comprised of:

	2017 $	2016 $
Advance payments to vendors	**16**	46
Prepaid insurance	**2**	1
Total prepaid expenses	**18**	47

10. Property, plant and equipment

Property, plant and equipment consist of the following:

Cost or valuation	Land $	Buildings $	Machinery and equipment $	Vehicles $	Finance leases $	Construction in progress $	Total $
As at January 1, 2016	77	25	312	7	10	7	438
Transfers from CIP	—	—	5	—	—	(5)	—
Additions and adjustments	—	—	15	—	—	6	21
Disposals	—	—	—	—	—	—	—
As at December 31, 2016	77	25	332	7	10	8	459
Transfers from CIP	—	—	22	1	—	(23)	—
Additions and adjustments	—	—	7	(3)	22	29	55
Disposals	(77)	(25)	(1)	—	—	—	(103)
As at December 31, 2017	**—**	**—**	**360**	**5**	**32**	**14**	**411**

Depreciation	Land $	Buildings $	Machinery and equipment $	Vehicles $	Finance lease $	Construction in progress $	Total $
As at January 1, 2016	—	2	44	—	6	—	52
Depreciation charge for the year	—	1	25	1	2	—	29
As at December 31, 2016	—	3	69	1	8		81
Depreciation charge for the year	—	—	26	—	2	—	28
Disposals	—	(3)	—	—	—	—	(3)
As at December 31, 2017	**—**	**—**	**95**	**1**	**10**	**—**	**106**
Net book value							
As at December 31, 2017	—	—	**265**	**4**	**22**	**14**	**305**
As at December 31, 2016	77	22	263	6	2	8	378

Assets held under finance leases

The Company leases building and equipment under finance lease arrangements. As at December 31, 2017, the net carrying amount of the leased building and leased equipment amounted to $21 and $1, respectively (December 31, 2016 – $nil and $2).

Notes to consolidated financial statements

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

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11. Investment in joint ventures

Stelco has 50% interests in two joint ventures, Baycoat and DC Chrome. Baycoat provides metal coating services and was founded in Canada in 1987. DC Chrome provides chrome plating services and was founded in Canada in 1973. Stelco's interests in Baycoat and DC Chrome are accounted for using the equity method in the consolidated financial statements. Summarized financial information of the joint ventures, based on their financial statements, and a reconciliation of the equity for the years ended December 31 with the carrying amount of the investments in Stelco's consolidated financial statements are set out below:

Asset and liabilities of the joint ventures

Assets and liabilities of the joint ventures (100% basis) consist of the following:

	2017 $	2016 $
As at December 31		
Current assets	**34**	34
Non-current assets	**6**	8
Current liabilities	**(9)**	(8)
Non-current liabilities	**(20)**	(19)

Statement of profit or loss of the joint ventures

Key information from the statements of profit or loss of the joint ventures is as follows (100% basis):

	2017 $	2016 $
For the years ended December 31		
Net sales	**73**	71
Depreciation	**(2)**	(2)
Net loss	**(4)**	(1)

Equity investment in the joint ventures

	2017 $	2016 $
Balance, beginning of year	**6**	7
Share of net loss	**(2)**	(1)
Balance, end of year	**4**	6

12. Trade and other payables

Stelco's trade and other payables as at December 31 are as follows:

	2017 $	2016 $
Trade payables	**183**	454
Inventory monetization arrangement	**121**	—
Payables to related parties	**4**	2
Other payables	**2**	1
Total trade and other payables	**310**	457

Trade payables

In the normal course of business, trade payables are non-interest bearing and are normally settled on 30-to 60-day terms. The trade payables as at December 31, 2016 include pre-petitioned amounts that were settled through the CCAA, which is further discussed in note 25. Payables to related parties is discussed in note 26.

Inventory monetization arrangement

On December 11, 2017, Stelco entered into an inventory monetization financing arrangement which is subject to a financing rate of LIBOR plus a margin of 3.5%. 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 up to specified maximum volumes. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty.

Amounts advanced under the inventory monetization arrangement are required to be repaid when the facility expires on October 31, 2018. The agreement has an option to terminate the arrangement early on either August 31, 2018 or September 28, 2018 and an option to renew the agreement for additional one-year terms. This financing arrangement is secured by inventory, with a carrying value of $152, serving as collateral. The weighted average financing rate for inventory monetization arrangement for the period ended December 31, 2017 was 4.84% and is recorded in financing costs.

13. Other liabilities

Other liabilities as at December 31 are comprised of:

	2017 $	2016 $
Salaries and benefits payable	**31**	20
Finance lease obligations	**24**	1
Pension and other post-employment benefits	**8**	280
Other liabilities	**3**	1
Interest payable	**1**	871
Total other liabilities	**67**	1,173
Total current other liabilities	**33**	1,172
Total non-current other liabilities	**34**	1

14. Provisions

Provisions are comprised of:

	Environmental remediation	Termination benefits	Total
	$	$	$
As at January 1, 2016	2	1	3
Arising during the year	4	—	4
Settled during the year	(1)	(1)	(2)
As at December 31, 2016	5	—	5
Current	—	—	—
Non-current	5	—	5
As at January 1, 2017	**5**	**—**	**5**
Arising during the year	1	—	1
Settled during the year	(1)	—	(1)
As at December 31, 2017	**5**	**—**	**5**
Current	—	—	—
Non-current	5	—	5

Environmental remediation

A provision has been recognized for environmental remediation costs associated with waste generated from steel making operations. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the Ontario Ministry of Environment and Climate Change.

15. Share capital

The Company’s authorized share capital includes an unlimited number of common shares with no par value. As at December 31, the following shares are outstanding:

	2017	2016
Number of common shares (#)	**345**	345
Common shares ($)	**2,325**	2,325

16. Finance costs

The following table summarizes the main components of finance costs for the years ended December 31:

	2017 $	2016 $
Interest on loans and borrowings	**117**	200
Accretion of employee benefit commitment *(note 21)*	**17**	—
Remeasurement of employee benefit commitment for the change in the timing and amounts of estimated cash flows *(note 21)*	**10**	—
Accretion expense related to finance lease obligations	**2**	—
Foreign exchange loss (gain)	**4**	(4)
Other	**4**	1
Total finance costs	**154**	197

17. Cost of goods sold

Cost of goods sold for the year ended December 31 is comprised of:

	2017 $	2016 $
Cost of inventories	**1,250**	1,108
Fixed overhead	**74**	62
Depreciation	**28**	29
Employee (active) salary and benefits expense	**25**	26
Employee (inactive) benefits expense	**25**	60
Shared service expense	**7**	2
Total	**1,409**	1,287

18. Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31 is comprised of:

	2017 $	2016 $
Enterprise resource planning system[1]	**22**	3
Acquisition related costs	**18**	—
Employee (active) salary and benefits expense	**11**	8
Professional, consulting and legal fees	**6**	1
Settlement of a contract cancellation	**6**	—
Employee (inactive) benefits expense	**4**	8
Management fees (*note 26*)	**3**	—
Shared service arrangement	**2**	3
Other	**5**	1
Total	**77**	24

(1) Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

Stelco Inc.

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December 31, 2017 and 2016

19. Income taxes

The major components of income tax expense for the years ended December 31 are as follows:

	2017 $	2016 $
Deferred income tax:		
Origination and reversal of temporary differences	**(770)**	(25)
Write down or reversal of deferred tax assets	**770**	25
Income tax expense reported in the consolidated statements of income (loss)	**—**	—

Reconciliation of Effective Tax Rate:

	2017 $	2016 $
Income (loss) before income taxes	**3,579**	(236)
Combined Canadian federal and provincial income tax rate	**25%**	25%
Income tax expense (recovery) based on statutory rate	**895**	(59)
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:		
Permanent differences:		
Debt forgiveness	**481**	—
Settlement of debt	**79**	—
Non-deductible interest	**42**	35
Restructuring gain	**(707)**	—
Environmental	**(20)**	—
Other	**—**	(1)
Write up (down) of deferred tax assets	**(770)**	25
Total income tax expense	**—**	—

Deferred tax

Deferred tax as at December 31 relates to the following:

	2017 $	2016 $	2015 $
Non-capital and capital loss carry-forwards	**208**	807	814
Employee benefit commitment	**88**	—	—
Deductible SRED expenditures	**9**	9	9
Plant and equipment	**2**	188	182
Provisions	**2**	2	1
Impairment provision of investment in subsidiaries	**2**	2	2
Land lease	**1**	—	—
Pension and other post-employment benefits	**—**	293	272
Compound interest	**—**	40	28
Province of Ontario note	**—**	28	28
Unrealized foreign exchange	**—**	8	9
Land	**—**	4	4
Deferred tax assets not recognized	**(312)**	(1,375)	(1,344)
Deferred tax asset	**—**	6	5
Investment property	**—**	(5)	(5)
Other	**—**	(1)	—
Deferred tax liability	**—**	(6)	(5)
Net deferred tax asset (liability)	**—**	—	—

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

December 31, 2017 and 2016

Reconciliation of movements in the components of net deferred tax asset (liability) as at December 31:

	2017	**Movement**	**2016**	**Movement**	**2015**
	$	$	$	$	$
Non-capital and capital loss carry-forwards	**208**	(599)	807	(7)	814
Employee benefit commitment	**88**	88	—	—	—
Deductible SRED expenditures	**9**	—	9	—	9
Plant and equipment	**2**	(186)	188	6	182
Provisions	**2**	—	2	1	1
Impairment provision of investment in subsidiaries	**2**	—	2	—	2
Land lease	**1**	1	—	—	—
Pension and other post-employment benefits	—	(293)	293	21	272
Compound interest	—	(40)	40	12	28
Province of Ontario note	—	(28)	28	—	28
Unrealized foreign exchange	—	(8)	8	(1)	9
Land	—	(4)	4	—	4
Deferred tax assets not recognized	**(312)**	1,063	(1,375)	(31)	(1,344)
Investment property	—	5	(5)	—	(5)
Other – deferred tax liabilities	—	1	(1)	(1)	—
Net deferred tax asset (liability)	**—**	—	—	—	—

Non-capital loss carry forward as at December 31:

	2017	**2016**
	$	$
2029	**—**	1,229
2030	**—**	702
2031	**—**	182
2032	**30**	299
2033	**400**	400
2034	**164**	164
2035	**238**	238
2036	**—**	—
Total	**832**	3,214

After the CCAA emergence, unrecognized capital losses of $29 expired unused on acquisition of control of the Company on June 30, 2017.

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

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

20. Pensions and other post-employment benefits

Net employee defined benefit asset (liabilities), pension and other benefits as at December 31:

	2017 $	2016 $
Pension plans	**—**	(397)
Other non-pension employee benefit plans	**(8)**	(913)
Total	**(8)**	(1,310)

Net benefit expense (recognized in net loss)

	2017 $	2016 $
Service costs	**18**	16
Settlement	**(1)**	13
Finance costs	**23**	45
Net benefit expense	**40**	74
Remeasurement, recognized in OCI	**53**	(60)

The Company sponsored multiple defined benefit pension plans and other defined benefit post-employment benefit plans that provide non-pension benefits during the year ended December 31, 2017 and was the administrator of the pension plans. On June 30, 2017, in connection with the emergence of the Company from protection under the CCAA (refer to note 25), Stelco's pension and OPEB liabilities of $1,387 were cancelled and discharged. The Company was required to establish new defined benefit plans for service on and after January 1, 2018 for the active hourly employees of the Company.

The current portion of pensions and other post-employment benefits are recorded within other liabilities *(note 13)*.

Defined benefit pension plans

The Company also sponsored nine Ontario registered funded defined benefit pension plans for eligible employees at various locations for formerly U.S. Steel Canada Inc. ("USSC") employees which included:

1. Lake Erie Bargaining Unit Plan
2. Lake Erie Salaried Plan
3. Hamilton Bargaining Unit Plan
4. Hamilton Salaried Plan
5. Pickle Line Plan
6. Steinman Salaried Plan
7. Stelpipe Bargaining Unit Plan
8. Stelpipe Salaried Plan
9. Welland Salary Plan

Four of these plans (Steinman Salaried Plan, Stelpipe Bargaining Unit, Stelpipe Salaried, and Welland Salary Pension Plans) were terminated and wound-up effective December 31, 2016. For each such plan, the Company entered into an agreement with an insurance company to purchase annuities for all the remaining former members and pensioners of the plans in full satisfaction of their benefit entitlements and a single premium was paid by each of the plans to the insurance company on December 22, 2016. For each plan, monthly pension payments continued to be paid from the plan's assets up to and including March 2017 and all future benefits, including lump-sum benefits were paid by the respective insurance company effective April 1, 2017. Any plan assets remaining after all benefits and expenses are paid are to be distributed to the Company and the beneficiaries in accordance with an agreed upon allocation.

The plans did not provide for indexation and member contributions were not required.

The salaried plans provided benefits based on final average earnings and length of credited service. The hourly plans provided flat dollar benefits based on length of credited service. The Pickle Line Plan provided benefits based on career average earnings and length of credited service. All the registered pension plans were funded and required contributions to be made by the Company to a separately administered fund.

Actuarial valuation reports were prepared for each plan as at December 31, 2016 and as at June 30, 2017.

The Company also provided two non-registered Supplemental Employee Retirement Plans ("SERPs"), which provide supplementary pension benefits in excess of the maximum pension amount limited by the *Income Tax Act* for eligible employees (Hamilton RCA Funded SERP, Unfunded SERP for Hamilton and Lake Erie). The SERPs were terminated in connection with the CCAA.

Net employee defined benefit asset (liabilities) as at December 31:

	2017	**2016**
	$	$
Defined benefit obligations	—	(3,423)
Fair value of assets	—	3,026
Net assets (liabilities)	—	(397)

Net benefit expense (recognized in net loss)

	2017	**2016**
	$	$
Service costs	**6**	12
Settlement	**(1)**	13
Finance cost	**6**	12
Net benefit expense	**11**	37

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

December 31, 2017 and 2016

Reconciliation of defined benefit obligations

	2017 $	2016 $
Beginning of year	**(3,423)**	(3,599)
Interest cost	**(60)**	(128)
Current service costs	**(6)**	(12)
Settlement	**1**	83
Benefits paid	**186**	267
Actuarial loss	**(122)**	(34)
Wind-up on emergence from CCAA	**3,424**	—
End of year	**—**	(3,423)

Reconciliation of fair value of plan assets

	2017 $	2016 $
Beginning of year	**3,026**	3,158
Actuarial gain	**113**	107
Expected return on assets	**54**	116
Employer contributions	**5**	9
Benefits paid	**(154)**	(267)
Settlement	**(32)**	(97)
Wind-up on emergence from CCAA	**(3,012)**	—
End of year	**—**	3,026

Other comprehensive income (loss) (OCI)

	2017 $	2016 $
Actuarial gain (loss) due to experience:		
Changes in economic assumptions	**(122)**	(34)
Actuarial gain due to assets experience	**113**	107
Remeasurement effects recognized in OCI	**(9)**	73

Notes to consolidated financial statements

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

December 31, 2017 and 2016

Reconciliation of net assets (liabilities)

	2017 $	2016 $
Beginning of year	**(397)**	(441)
Periodic benefit expense	**(11)**	(38)
Remeasurements, recognized in OCI	**(9)**	73
Employer contributions	**5**	9
Wind-up on emergence from CCAA	**412**	—
End of year	**—**	(397)

Categories of plan assets:

The major categories of plan assets of the fair value of the total plan assets are, as follows:

	2017 $	2016 $
Pooled funds	—	1,908
Equity securities (Domestic)	—	468
Equity securities (Foreign)	—	13
Short-term investments	—	113
Private equities	—	15
Debt securities (Domestic)	—	185
Government bonds (Domestic)	—	321
Other	—	3
Total	—	3,026

Key assumptions, at year-end

	2017 %	2016 %
Discount rate	—	3.6
Future salary increases	—	3.0
Mortality	—	CPM2014 Private table, Scale CPM-B with size adjustment
Average duration of the obligation	—	10 – 11 years

Sensitivity analysis – obligation

	2017 $	2016 $
Discount rate		
0.05% increase	—	(18)
0.05% decrease	—	19
Future salary increases		
1% increase	—	2
1% decrease	—	(2)
Mortality		
10% increase	—	(76)
10% decrease	—	84

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation has been calculated using the projected unit credit method which is the same method that is applied in calculating the defined benefit liability recognized in the statement of financial position. The sensitivity analysis presented above may not be representative of the actual change in the accrued benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

Expected contributions for the next fiscal year

	2017 $	2016 $
	—	218

Other post-employment benefits and compensated absences plans

The Company also sponsored the following non-pension employee benefits which were closed and settled on June 30, 2017:

1. Bargaining Unit Retiree Medical
2. Bargaining Unit Retiree Life
3. Salaried Retiree Medical
4. Salaried Retiree Life
5. Legacy OPEB
6. Nelson Bargaining Unit OPEB
7. Compensated Absences Plan (Hamilton and Lake Erie)

On June 30, 2017, the Compensated Absences Plan was expanded to include eligible hourly employees at Lake Erie, and has been reinstated upon emergence from CCAA.

Funded Status and OPEB reports are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate.

Notes to consolidated financial statements

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

December 31, 2017 and 2016

Net employee defined benefit liabilities as at December 31:

	2017 $	2016 $
Defined benefit obligations	**(8)**	(913)
Fair value of assets	**—**	—
Net liabilities	**(8)**	(913)

Net benefit expense (recognized in income (loss) for the year)

	2017 $	2016 $
Current service costs	**4**	4
Past service costs	**8**	—
Interest cost on benefit obligation	**17**	33
Net benefit expense	**29**	37

Reconciliation of defined benefit obligations

	2017 $	2016 $
Beginning of year	**(913)**	(870)
Interest cost	**(17)**	(33)
Current service costs	**(4)**	(4)
Past service costs	**(8)**	—
Benefits paid	**3**	6
Actuarial loss	**(44)**	(12)
Wind-up on emergence from CCAA	**975**	—
End of year	**(8)**	(913)

Reconciliation of fair value of plan assets

	December 31, 2017 $	December 31, 2016 $
Beginning of year	**—**	—
Employer contributions	**3**	6
Benefits paid	**(3)**	(6)
End of year	**—**	—

Other comprehensive income (loss) (OCI)

	2017 $	2016 $
Actuarial gain/ (loss) due to obligation experience		
Changes in economic assumptions	**(44)**	(12)
Remeasurement effects recognized in OCI	**(44)**	(12)

Reconciliation of net assets (liabilities)

	2017 $	2016 $
Beginning of year	**(913)**	(870)
Periodic benefit expense	**(29)**	(37)
Remeasurements, recognized in OCI	**(44)**	(12)
Employer contributions	**3**	6
Wind-up on emergence from CCAA	**975**	—
End of year	**(8)**	(913)

Key assumptions, at year-end

	2017 %	2016 %
Discount rate	**3.3**	3.8
Future salary increases	**2.1**	3.0
Mortality	CPM2014 Private table, Scale CPM-B with size adjustments	
Average duration of the obligation	**8 years**	12 – 13 years

Sensitivity analysis – obligation

	December 31, 2017 $	December 31, 2016 $
Discount rate		
0.05% increase	**—**	(6)
0.05% decrease	**—**	7
Future salary increases		
0.5% increase	**—**	—
0.5% decrease	**—**	—
Mortality		
10% increase	**—**	(32)
10% decrease	**—**	36
Healthcare cost increase rate		
1.0% increase	**N/A**	114
1.0% decrease	**N/A**	(93)

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation has been calculated using the projected unit credit method which is the same method that is applied in calculating the defined benefit liability recognized in the statement of financial position. The sensitivity analysis presented above may not be representative of the actual change in the accrued benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

Expected contributions for the next fiscal year

	December 31, 2017 $	December 31, 2016 $
	1	43[1]

[1] Comparative amount includes expected contributions for both the compensated absences plan and other post-employment benefits plans.

Establishment of new pension plans

Pursuant to Ontario Regulation 255/17 (“Regulation”) made under the Pension Benefits Act (Ontario) on June 30, 2017, the Company is required to establish a new pension plan for service on and after January 1, 2018 for certain active hourly employees of the Company on the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled (see note 25). Under the Regulation, the Company is required to make annual contributions for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 annually and decline to $3 annually for years 2024 through 2027. After 2027, these plans are subject to the Pension Benefit Act (Ontario). Additional commitments have been disclosed in note 25.

21. Financial assets and financial liabilities

Financial assets

Financial assets are comprised of cash and cash equivalents, restricted cash as well as trade and other receivables.

Financial liabilities

Financial liabilities are comprised of trade and other payables, interest bearing loans and borrowings, employee benefit commitment and finance lease obligations.

Interest-bearing loans and borrowings

The Company's interest-bearing loans and borrowings are measured at amortized cost using the effective interest method and are comprised of the following:

	Weighted average interest rate	**Maturity**	**2017**	**2016**
	%	Year	$	$
Current interest-bearing loans and borrowings				
Inventory monetization arrangement *(note 12)*	4.84	31-Oct-18	**121**	—
Province of Ontario note	1.00	31-Mar-16	**—**	150
USS secured revolving loan	3.35	11-May-25	**—**	96
USS unsecured revolving loan	2.37	11-May-25	**—**	157
USS term loan	9.03	31-Oct-37	**—**	1,419
Total current interest-bearing loans and borrowings			**121**	1,822
Non-current interest-bearing loans and borrowings				
Province advance	2.79	29-Jun-20	**—**	—
Asset-based lending facility	4.47	30-Jun-22	**—**	—
Total non-current interest-bearing loans and borrowings			**—**	—
Total interest-bearing loans and borrowings			**121**	1,822

Province of Ontario note

Stelco was provided with $150 on March 31, 2006 from the Province of Ontario (the "Province Note") in connection with the restructuring of the pension plan funding arrangements as contemplated by the CCAA. The Province Note was unsecured and repayable on December 31, 2015, with an automatic extension to March 31, 2016 per the terms of the agreement in the event that the principle amount remained outstanding. The Province Note, which was past due as at December 31, 2016, was subject to an interest rate of 1% per annum with an effective rate based on its recognition date fair value of 12%. As a result of Stelco's CCAA filing in 2014, the loan was considered to be in default, and the discount was fully accreted to record the loan at its face value of $150. The loan continued to accrue interest at 1% while the Company was under CCAA, and therefore the 1% contractual interest was recognized through June 30, 2017. Upon emergence from CCAA on June 30, 2017, the Province Note was extinguished (refer to note 25).

USS revolving credit agreement

In May 2010, Stelco entered into an unsecured revolving credit facility with USS, where the Company could draw an aggregate amount of US$350 at any one time. Through an amendment in July 2012, this aggregate amount was increased to US$500 and through a second amendment in January 2013, this aggregate amount was further increased to US$600. Further amendments in 2013 secured certain obligations owing by Stelco to USS under the facility. Under the terms of the revolving credit agreement, the outstanding balance must be paid by the maturity date, however, payments on an outstanding balance can be made prior to this. Draws on the revolver are subject to interest from the date of the advance until the date on which the advance is paid in full, at the safe-harbour Applicable Federal Rate as prescribed by the Internal Revenue Service. Interest was payable upon the second anniversary date of the loan and biennially thereafter. Upon emergence from CCAA on June 30, 2017, the USS revolving credit agreement was extinguished (refer to note 25).

USS term loan

In October 2007, Stelco entered into a term loan with USS, for an amount of CAD $1,000 with a maturity date of October 31, 2037. Through an amendment in December 2007, the term loan amount increased to CAD $1,500. Interest on the term loan accrued daily and compounded semi-annually at an interest rate of 9.03% per year. Interest was payable on the last business day of the year on the second anniversary after the year in which it was accrued. Upon emergence from CCAA on June 30, 2017, the USS term loan was extinguished (refer to note 25).

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

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

Province advance

On June 30, 2017, Stelco entered into a secured credit agreement with the Province of Ontario (the "Province Advance") in connection with the funding of future pension and OPEB commitments. The Province Advance permits Stelco to borrow up to $22, comprising up to $10.5 (the "First Advance") on June 30, 2017 and up to $2.875 on each of June 30, 2018, October 1, 2018, January 1, 2019 and April 1, 2019 (the "Second Advances"). The First Advance is due on June 29, 2020, and the Second Advances are due on June 29, 2021. The Province Advance

is subject to an interest rate of the Province's cost of funds for a four-year non-amortizing bond as at June 30, 2017 plus 1%. Interest is compounded semi-annually and payable on the maturity dates of the First Advance and Second Advances, respectively. On June 30, 2017, $10.5 was advanced under this facility and the Company repaid the entire amount during the period resulting in a $nil outstanding balance as at December 31, 2017.

Asset-based lending ("ABL") facility

In connection with the restructuring of Stelco as further described in note 25, the Company entered into an ABL revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375. The amount available to be drawn under the ABL facility will vary from time to time, based upon a borrowing base determined with reference to the Company's trade receivables and inventory balances. At December 31, 2017, the available borrowing base is $269. 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. The Company also has the option to index the interest rate to CDOR/LIBOR plus a margin of 2% – 2.5%, and may elect this in the event that it results in a lower rate of interest on its draws under the revolver. Additionally, the Company is subject to payment of an unused line fee ranging from 0.25% – 0.375% of the unused portion of the revolver, depending on the amount undrawn, and is payable monthly. The Company can obtain letters of credit under the facility at a rate of 2% – 2.5%. The Company has letters of credit outstanding as at December 31, 2017 in the amount of $35. During the year ended December 31, 2017, the Company drew a total of $199 on the ABL facility, incurring total interest charges in the amount of $1. All amounts outstanding were repaid as at December 31, 2017, resulting in a $nil balance.

Employee benefit commitment

	December 31, 2017	December 31, 2016
	$	$
Employee benefit commitment	**344**	—
Total current	**32**	—
Total non-current	**312**	—

Employee benefit commitment estimated payments	December 31, 2017	December 31, 2016
	$	$
2018	**32**	—
2019	**47**	—
2020	**79**	—
2021	**31**	—
2022	**44**	—
Thereafter	**523**	—
Total gross obligation	**756**	—
Amount representing interest	**(412)**	—
Carrying amount of obligation	**344**	—

The employee benefit commitment resulted from the emergence from CCAA on June 30, 2017. This financial liability was initially recorded at its fair value of $329 at June 30, 2017, which is measured based on unobservable Level 3 inputs, using a discounted cash flow analysis of expected cash flows to be paid in future periods to the Pension and OPEB trusts that were established upon the Company's emergence from CCAA *(note 25)*. These payments consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of the Company's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of senior unsecured debt for companies in the same sector that are of a similar size. The rate used to discount expected payments based on projected operational profitability is consistent with the Company's anticipated internal rate of return. The measurement of fair value is classified within Level 3 of the fair value hierarchy. The employee benefit commitment has been subsequently accounted for at amortized cost using the effective interest method using an effective interest rate of 11.04%.

Since June 30, 2017, the employee benefit commitment was reduced by payments of $12, offset by an accretion expense of $17. The Company adjusts the carrying value of the liability to reflect changes in timing and amount of estimated future cash flows, which resulted in a $10 increase in the liability for the year ended December 31, 2017. A liability of $344 has been recognized as at December 31, 2017.

The fair value of the employee benefit commitment is $358 as at December 31, 2017 and was calculated by discounting the future estimated cash flows.

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

Derivative financial instruments

On July 28, 2017, the Company entered into foreign currency forward contracts to manage exposure to fluctuations in US dollar denominated revenue. Under the terms of the derivative contracts, the Company agreed to sell an aggregate of up to $45 in US dollar calls and Canadian dollar puts and purchase up to $90 in US dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018 at a CAD/USD foreign exchange rate of $1.2101. The Company has not entered into the foreign currency forward contracts for trading or speculative purposes and has elected to not apply hedge accounting.

As at December 31, 2017, the foreign exchange forward contracts are in a net liability position of $nil (December 31, 2016 - $nil) which is recorded in trade and other payables on the consolidated statements of financial position, with the corresponding change in fair market value adjustment recorded in finance costs in the consolidated statements of income (loss). Fair value is determined using quoted forward exchange rates (Level 2) as at the financial reporting period end dates.

22. Financial instruments risk management objectives and policies

The Company's principal financial liabilities comprise interest-bearing loans and borrowings, the employee benefit commitment as well as trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, and cash and short-term deposits that are derived directly from its operations.

Market risk

The Company is exposed to market risk including price risk, foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. During the CCAA proceedings, the Company's senior management was supported by a Chief Restructuring Officer as well as the Monitor (see note 1). These parties are appointed by the Court and provide assurance to the Company's stakeholders that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. Until discharged by the Court, the Monitor will continue to be involved with the distribution of the settlement claims.

Price risk

The Company is exposed to price risk related to purchases of certain commodities used as raw materials, including iron ore and metallurgical 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 up to a specified amount through January 31, 2022. This agreement contains a fixed price which is adjusted quarterly based on changes in specified indices.

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.

The Company monitors its cash inflows and outflows denominated in foreign currency and plans the conversion of funds into foreign currency to support business needs. The Company uses derivative financial instruments to manage exposure to changes in foreign currency exchange rates. The Company entered into foreign currency forward contracts as further discussed in note 21.

As at December 31, 2017, a 10% strengthening in the Canadian dollar would have resulted in a $16 increase in pre-tax income (2016 – $16 increase) from translating foreign denominated working capital balances, assuming all other variables remain unchanged, and a 10% weakening in the Canadian dollar would have resulted in a $16 decrease in pre-tax income (2016 – $16 decrease).

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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. A 1% increase or decrease in interest rates would not have resulted in a significant impact on pre-tax income due to the fixed nature of the Company's legacy loans and due to either the limited volume or duration of borrowings under the Company's advance from the Province, ABL and inventory monetization arrangement.

Credit risk

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) 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. To mitigate this risk, regular credit evaluations and purchase credit insurance for international customers are performed.

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. In addition to the work performed by the Chief Restructuring Officer and the Monitor while in CCAA proceedings, the Company 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 potential private and public financing through Stelco Holdings.

As at December 31, 2017, all of the financial liabilities of the Company, with the exception of the employee benefit commitment and finance lease obligations, were due within 12 months.

Concentration of credit and business risks

The Company is exposed to credit risk in the event of non-payment by customers, principally within the container, construction, automotive, and steel service centre industries. Changes in these industries 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.

The Company's customers are principally located in North America. As steel and steel products can be sold through numerous traders internationally, the Company is not economically dependent on a limited number of customers for the sale of its products.

Trade receivables

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.

As at December 31, 2017, six of the Company's customers made up greater than 65% of the total trade accounts receivable. The Company's credit exposure to these customers was $133 (December 31, 2016 – six customers at $159 or 69% of total trade accounts receivable).

An analysis for uncollectible amounts is performed as at each reporting date on an individual basis for major customers. 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.

Pensions – defined benefit plans

All defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk and market risk. Longevity risk is the risk that changes in life expectancy of pensioners will affect the expected payout by the Plan. Market risk is the risk that changes in market prices will affect the fair value of future cash flows of a financial instrument. Interest rate risk, as discussed above, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk specific to the defined benefit plans exists because the value of the Plan's assets is affected by short-term changes in nominal and real interest rates. The value of the Plan's commuted values payable is affected by changes in interest rates for long-term government bonds. Market risk is composed of currency risk, interest rate risk and other market price risk. During 2017 the existing defined benefit plans were wound up and settled as part of the emergence from CCAA; however, the Company is required to establish new defined benefit plans for service on and after January 1, 2018 for the active hourly and salaried employees of the Company and therefore will continue to be exposed to these risks in the future.

23. Capital management

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

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

The Company monitors capital by preparing annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to externally imposed restrictions.

The Company finished the process of negotiating with its stakeholders for a restructuring of its capital structure, including its long-term debts as discussed in note 25. During the year ended December 31, 2017, the Company obtained an advance from the Province, inventory based financing and an ABL facility as further discussed in note 21.

The Company defines its capital to include amounts drawn and available under existing financing arrangements including the ABL facility and inventory monetization arrangements, as well as all components of equity and is comprised as follows as at December 31:

	2017	**2016**
	$	$
Interest bearing debt	**—**	1,822
Amounts drawn under inventory monetization arrangement	**121**	—
Amounts available under ABL facility	**269**	—
Total	**390**	1,822
Total equity	**309**	(3,287)
Total capital	**699**	(1,465)

24. Commitments and contingencies

Operating leases

The Company has entered into operating leases on its machinery and equipment, with lease terms between 3 and 5 years. Additionally, in connection with the Company's emergence from CCAA *(note 25)*, the Company sold and leased back on a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated.

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

	2017	**2016**
	$	$
Within 1 year	**4**	4
2 to 5 years	**24**	8
Over 5 years	**138**	—
Total	**166**	12

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.

Additional commitments have been disclosed in note 25.

25. Emergence from CCAA

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

- Bedrock indirectly acquired all of Stelco's shares from U. S. Steel for cash proceeds of $70;

- Secured claims amounting to US$127 of U. S. Steel for the USS Holdings secured revolving loan and interest (discussed in note 21) which includes US$49 of other USS trade claims recognized as related party transactions were paid in full;

- Secured claims relating to construction liens of $11 and realty taxes of $16 were settled in full;

- Unsecured claims of U. S. Steel loans totaling $1,571 consisting of the USS term loan and USS unsecured revolving loan *(note 21)*, plus accrued interest of $959 and net trade amounts of $26 recognized as related party transactions, were discharged and cancelled for nominal consideration;

- General unsecured creditors with proven claims totaling approximately $131, which consisted primarily of trade payables, will participate in a pool of $15 in respect of their claims. The Province of Ontario waived its distribution in respect of its general unsecured loan of $150 plus interest *(note 21)*. In addition, Stelco paid $9 to settle certain salaried employee and retiree claims. Upon implementation of the Plan, all of these claims were compromised, released, fully discharged and barred;

- U. S. Steel agreed to continue to provide certain business and transition services to Stelco for specified periods and for agreed upon pricing;

- Stelco committed to purchasing all of its iron ore requirements from U. S. Steel through the 2021 shipping season up to a specified maximum amount;

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

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

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

- Stelco transferred all of its land assets at Hamilton Works and Lake Erie Works with a net book value of $99 *(note 10)* as well as the investment property with a net book value of $21 to the Land Vehicle formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities;

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

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

- The Province of Ontario provided a non-revolving loan of $22 to Stelco, of which $10.5 was drawn and repaid during 2017. Further information on the terms of the loan is provided in note 21; and

- Stelco entered into a revolving asset-based lending facility pursuant to which it has the ability to borrow up to the lesser of $375 and a borrowing base calculation that includes a percentage of net accounts receivable, inventory less other reserves. Further information on the terms of the loan are provided in note 21.

As a result of the implementation of the Plan, Stelco initially recognized a gain on emergence from CCAA of $3,665. During the three month period ended December 31, 2017, the gain on emergence from CCAA was reduced by $12 to $3,653, resulting from a change in the expected timing and amount of payments and total cashflows on the measurement of the Company's employee benefit commitment liability at the date of Stelco's emergence from CCAA.

26. 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 arrangements, investments in associates, among other entities and persons.

The following table provides the total amount of transactions that have been entered into with related parties and outstanding balances with related parties for the relevant financial years:

	2017 $	2016 $
Bedrock Industries B.V.		
Purchases of services	**23**	—
Amounts payable to related parties	**1**	—
Stelco Holdings Inc.		
Amounts payable to related parties	**3**	—
Joint ventures		
Purchases of services	**19**	19
Amounts payable to related parties	**—**	2

Subsidiaries

Transactions between Stelco 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

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise the Executive Senior Leadership Team ("ESLT"). Prior to the emergence from CCAA, the ESLT comprised of the President and General Manager, Chief Restructuring Officer and certain other members of the senior management team of the Company. Effective July 1, 2017, the ESLT 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, Stelco recorded $4 (2016 – $4) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.