Unaudited Interim Condensed Consolidated Financial Statements

Stelco Inc.

Three Months Ended March 31, 2018 and 2017

STELCO INC.
CONSOLIDATED BALANCE SHEETS
(In millions of Canadian dollars, unaudited)

As at	Note		**March 31, 2018**		December 31, 2017
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**35**	$	45
Restricted cash			**11**		12
Trade and other receivables			**214**		203
Inventories			**370**		448
Prepaid expenses			**9**		18
Total current assets		**$**	**639**	$	726
Non-current assets					
Property, plant and equipment, net	*4*		**303**		305
Investment in joint ventures			**4**		4
Total non-current assets		**$**	**307**	$	309
Total assets		**$**	**946**	$	1,035
LIABILITIES					
Current liabilities					
Trade and other payables	*5*	**$**	**205**	$	310
Other liabilities			**30**		33
Employee benefit commitment	*6*		**42**		32
Total current liabilities		**$**	**277**	$	375
Non-current liabilities					
Provisions			**6**		5
Pension benefits	*13*		**1**		—
Other liabilities			**36**		34
Employee benefit commitment	*6*		**289**		312
Total non-current liabilities		**$**	**332**	$	351
Total liabilities		**$**	**609**	$	726
EQUITY					
Common shares			**2,325**		2,325
Contributed surplus			**500**		500
Retained deficit			**(2,488)**		(2,516)
Total equity		**$**	**337**	$	309
Total liabilities and equity		**$**	**946**	$	1,035

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In millions of Canadian dollars, unaudited)

Three months ended March 31,	Note		**2018**		2017
Revenue from sale of goods	*7*	**$**	**482**	$	386
Cost of goods sold	*8*		**414**		340
Gross profit		**$**	**68**	$	46
Selling, general and administrative expenses	*9*		**11**		10
Operating income		**$**	**57**	$	36
Other income (loss) and (expenses)					
Finance costs	*10*		**(16)**		(50)
Finance and other income (loss)	*11*		**(10)**		5
Restructuring and other costs			**(3)**		(8)
Income (loss) before income taxes		**$**	**28**	$	(17)
Income tax expense	*12*		**—**		—
Net income (loss)		**$**	**28**	$	(17)

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions of Canadian dollars, unaudited)

Three months ended March 31,		**2018**		2017
Net income (loss)	**$**	**28**	$	(17)
Other comprehensive income:				
Items that are not recycled or reclassified to income (loss):				
Remeasurement gains on pension benefit obligations, net of income tax		**—**		9
Other comprehensive income, net of income taxes	**$**	**—**	$	9
Comprehensive income (loss), net of income taxes	**$**	**28**	$	(8)

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(In millions of Canadian dollars, except where otherwise noted, unaudited)

	Number of common shares	Common shares	Contributed surplus	Retained deficit	Total equity (deficiency)
Balance, December 31, 2016	345	$ 2,325	$ 430	$ (6,042)	$ (3,287)
Changes during the period:					
Net loss	—	—	—	(17)	(17)
Other comprehensive loss	—	—	—	9	9
Balance, March 31, 2017	345	$ 2,325	$ 430	$ (6,050)	$ (3,295)
Balance, December 31, 2017	345	2,325	500	(2,516)	309
Changes during the period:					
Net income	**—**	**—**	**—**	**28**	**28**
Balance, March 31, 2018	**345**	**$ 2,325**	**$ 500**	**$ (2,488)**	**$ 337**

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

STELCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Canadian dollars, unaudited)

Three months ended March 31,	Note		**2018**		2017
Operating activities					
Net income (loss)		**$**	**28**	$	(17)
Items not affecting cash:					
Depreciation			**9**		7
Bad debt recovery			**(2)**		—
Change in non-cash working capital and other operating activities	*14*		**47**		76
Cash provided by operating activities		**$**	**82**	$	66
Investing activities					
Capital expenditures on property, plant and equipment			**(7)**		(3)
Change in restricted cash			**1**		(2)
Cash used in investing activities		**$**	**(6)**	$	(5)
Financing activities					
Advances of long-term debt			**29**		—
Repayment of long-term debt			**(29)**		—
Repayment of inventory monetization arrangement, net			**(90)**		—
Advance from Stelco Holdings Inc.	*18*		**4**		—
Cash used in financing activities		**$**	**(86)**	$	—
Net increase (decrease) in cash and equivalents during the period			**(10)**		61
Cash and equivalents, beginning of period			**45**		188
Cash and equivalents, end of period		**$**	**35**	$	249
Cash flows provided by operating activities include:					
Interest paid			**2**		—

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To facilitate a better understanding of Stelco's unaudited interim condensed consolidated financial statements, significant accounting policies and related disclosures, a listing of all the notes is provided below:

1. CORPORATE INFORMATION

Stelco 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 its common shares are listed on the Toronto Stock Exchange (TSX) under the symbol STLC.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Stelco's unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the years ended December 31, 2017 and 2016 (2017 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2017 Annual Financial Statements, with the exception of the accounting policies impacted by the adoption of new standards and interpretations effective January 1, 2018, as noted below. Certain comparative information has been reclassified to conform to the current period's presentation.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors of Stelco Holdings on May 2, 2018.

Change in accounting policies

Stelco has adopted each of the standards and policies noted below on January 1, 2018:

a) IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

IFRS 15 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 Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Consolidated Financial Statements.

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 duties. The Company recognizes revenue as a 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. Revenue from the sale of goods is recognized when the performance obligation is satisfied by transferring the promised good to a customer. A good is considered transferred when the customer obtains control, which is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of an asset. Revenue from sale of goods under bill and hold arrangements is recognized when the buyer obtains control of the goods and the following criteria are met: the reason for the bill and hold arrangement is substantive, the product can be separately identifiable as belonging to the customer, the item is ready for delivery, the Company does not have the ability to use the product or direct it to another customer, 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, volume rebates and other incentives. Shipping and other transportation costs charged to buyers are recorded in sales and the related costs recorded in cost of goods sold.

b) IFRS 9 - Financial instruments (IFRS 9)

IFRS 9 introduces new requirements for the classification, measurement impairment of financial instruments as well as hedge accounting. The Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Consolidated Financial Statements.

Stelco'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, long-term debt, as well as employee benefit commitments.

The classification of financial instruments is typically determined at the time of initial recognition, within the following categories:

- Amortized cost
- Fair value through income or loss
- Fair value through other comprehensive income

Financial instruments carried at fair value through income or loss

Financial instruments in this category include derivative financial instruments which are presented on the consolidated balance sheets as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments carried at amortized cost

Financial instruments in this category include cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt and the employee benefit commitment. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Trade and other receivables include originated and purchased non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment.

Trade and other payables, long-term debt (including the 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).

Impairment of financial assets carried at amortized cost

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL.

Financial assets, 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 the Consolidated Statements of Income (Loss).

c) Weighted average method for raw material inventory cost measurement

Prior to January 1, 2018, Stelco's cost of raw materials were determined using the first-in first-out method. The Company considers that the change to the weighted average cost method gives a more accurate presentation of the results and is more suitable for entities that carry raw materials that are largely interchangeable. This change in accounting policy has been accounted for retrospectively and the relevant effect of this change did not result in any adjustments to current or comparative periods.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

3. FUTURE CHANGES IN ACCOUNTING POLICIES

Stelco monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these Consolidated Financial Statements are described below. This description is of the standards and interpretations issued that the Company reasonably expects to be applicable at a future date. Stelco intends to adopt these standards when they become effective.

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 and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. The Company expects to report more detailed information, including estimated quantitative financial impacts, if material, in its Consolidated Financial Statements as the effective date approaches.

IFRIC 23 - Uncertainty over Income Tax Treatments (IFRIC 23)

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	**Machinery and equipment**	**Vehicles**	**Assets under finance leases**	**Construction in progress**	**Total**
Balance at December 31, 2017	$ 360	$ 5	$ 32	$ 14	$ 411
Additions	2	—	—	5	7
Transfers from construction in progress	1	1	—	(2)	—
Balance at March 31, 2018	**$ 363**	**$ 6**	**$ 32**	**$ 17**	**$ 418**

Accumulated depreciation	**Machinery and equipment**	**Vehicles**	**Assets under finance leases**	**Construction in progress**	**Total**
Balance at December 31, 2017	$ 95	$ 1	$ 10	$ —	$ 106
Depreciation	8	—	1	—	9
Balance at March 31, 2018	**$ 103**	**$ 1**	**$ 11**	**$ —**	**$ 115**
Net book value					
Balance at March 31, 2018	**$ 260**	**$ 5**	**$ 21**	**$ 17**	**$ 303**
Balance at December 31, 2017	$ 265	$ 4	$ 22	$ 14	$ 305

Assets under finance leases

Included in property, plant and equipment are certain buildings and equipment acquired under finance lease arrangements. As at March 31, 2018, the net carrying amounts of the leased building and equipment was $21 million and $nil, respectively (December 31, 2017 - $21 million and $1 million).

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

5. TRADE AND OTHER PAYABLES

As at		**March 31, 2018**		December 31, 2017
Trade payables	**$**	**151**	$	183
Inventory monetization arrangement		**33**		121
Commodity-based swaps		**10**		—
Payables to related parties[1]		**8**		4
Other payables		**3**		2
Total trade and other payables	**$**	**205**	$	310

1 Refer to note 18 for further details.

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 and the quantity of certain raw materials on-site, less a required cash margin. 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 $49 million, serving as collateral. The weighted average finance rate for the inventory monetization arrangement for the period ended March 31, 2018 was 5.19% and is recorded in finance costs on the Consolidated Statements of Income (Loss).

Commodity-based swaps

During the three months ended March 31, 2018, the Company entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. The Company has not entered into these contracts for trading or speculative purposes and has elected to not apply hedge accounting. As at March 31, 2018, Stelco had the following commodity-based swaps outstanding:

Trade date	Commodity type	Trade type	Notional quantity	Contract value	Maturity date
February 6, 2018	Hot-Rolled Coil	Sell	40,000 net tons	$36 (US$28)	May 2, 2018
March 8, 2018	Hot-Rolled Coil	Buy	40,000 net tons	$46 (US$36)	May 2, 2018

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

6. EMPLOYEE BENEFIT COMMITMENT

As at		**March 31, 2018**		December 31, 2017
Employee benefit commitment	**$**	**331**	$	344
Current		**42**		32
Non-current	**$**	**289**	$	312

Future employee benefit commitment payments are estimated as follows:

As at		**March 31, 2018**
2018 [1]	**$**	**28**
2019		**46**
2020		**58**
2021		**31**
2022		**44**
Thereafter		**523**
Total employee benefit commitment	**$**	**730**
Less amounts representing future finance costs		**(399)**
Present value of employee benefit commitment	**$**	**331**

1 Includes the remaining nine months of 2018.

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.

During the three months ended March 31, 2018, the Company adjusted the carrying value of the employee benefit commitment to reflect a $20 million advance payment to the Pension and OPEB trusts, that was estimated as at December 31, 2017 to be paid during the year 2020. As a result of this accelerated payment and the impact to the present value of the employment benefit commitment, the Company recognized an increase of $4 million to the liability with a corresponding increase in finance costs on the Consolidated Statements of Income (Loss). The Company has assessed all other assumptions and has determined no significant changes from December 31, 2017. Refer to note 10 for further details.

7. REVENUE FROM SALE OF GOODS

Revenue by geographical location is comprised of:

Three months ended March 31,		**2018**		2017
Canada	**$**	**395**	$	330
United States		**87**		56
Total	**$**	**482**	$	386

8. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Three months ended March 31,		**2018**		**2017**
Cost of inventories	**$**	**374**	$	299
Fixed overhead		**23**		14
Depreciation		**9**		7
Employee (active) benefits expense		**6**		7
Shared service expense		**2**		—
Employee (inactive) benefits expense		**—**		13
Total	**$**	**414**	$	340

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

For the three months ended March 31, 2018, cost of goods sold includes the impact of a $6 million inventory revaluation adjustment which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the current period.

9. SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses is comprised of:

Three months ended March 31,		**2018**		2017
Enterprise resource planning system [1]	**$**	**4**	$	4
Employee (active) salary and benefits expense		**4**		2
Professional, consulting and legal fees		**2**		1
Management fees [2]		**1**		—
Employee (inactive) benefits expense		**—**		2
Shared service arrangement		**—**		1
Total	**$**	**11**	$	10

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.
2 Refer to note 18 for further details.

10. FINANCE COSTS

Finance costs are comprised of:

Three months ended March 31,		**2018**		2017
Accretion of employee benefit commitment[1]	**$**	**9**	$	—
Remeasurement of employee benefit commitment[1]		**4**		—
Interest on loans and borrowings		**2**		52
Accretion expense related to finance lease obligations		**1**		—
Foreign exchange gain		**—**		(3)
Other		**—**		1
Total	**$**	**16**	**$**	**50**

1 Refer to note 6 for further details.

11. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) is comprised of:

Three months ended March 31,		**2018**		2017
Unrealized fair value loss on commodity-based swaps	**$**	**(10)**	$	—
Finance and other income		**—**		5
Total finance and other income (loss)	**$**	**(10)**	$	5

During the three months ended March 31, 2018, the Company entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party. Refer to note 5 for further details.

Finance and other income includes certain recoveries related to insurance claims and property tax rebates.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

12. INCOME TAXES

The major components of income tax expense for the period ended are as follows:

Three months ended March 31,		**2018**		2017
Deferred income tax:				
Origination and reversal of temporary differences	**$**	**8**	$	28
Previously unrecognized deferred tax assets		**(8)**		(28)
Income tax expense reported in the consolidated statements of income (loss)	**$**	**—**	$	—

Reconciliation of Effective Tax Rate:

Three months ended March 31,		**2018**		2017
Income (loss) before income taxes	**$**	**28**	$	(17)
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense (recovery) based on statutory rate		**7**		(4)
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Permanent differences:				
Non-deductible interest		**—**		32
Unrecognized deferred tax assets		**(7)**		(28)
Total income tax expense	**$**	**—**	$	—

Deferred tax

Deferred tax relates to the following:

As at		**March 31, 2018**		December 31, 2017
Non-capital and capital loss carry-forwards	**$**	**199**	$	208
Employee benefit commitment		**85**		88
Deductible SRED expenditures		**9**		9
Plant and equipment		**4**		2
Provisions		**2**		2
Impairment provision of investment in subsidiaries		**2**		2
Land lease		**1**		1
Commodity based swaps		**3**		—
Deferred tax assets not recognized		**(305)**		(312)
Deferred tax asset		**—**		—

Reconciliation of movements in the deferred tax asset as at:

As at		**March 31, 2018**		Movement		December 31, 2017
Non-capital and capital loss carry-forwards	**$**	**199**	$	(9)	$	208
Employee benefit commitment		**85**		(3)		88
Deductible SRED expenditures		**9**		—		9
Plant and equipment		**4**		2		2
Provisions		**2**		—		2
Impairment provision of investment in subsidiaries		**2**		—		2
Land lease		**1**		—		1
Commodity based swaps		**3**		3		—
Deferred tax assets not recognized		**(305)**		7		(312)
Deferred tax asset		**—**		—		—

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

Non-capital loss carry forwards:

As at		**March 31, 2018**		December 31, 2017
2032		**—**		30
2033		**394**		400
2034		**164**		164
2035		**238**		238
Total	**$**	**796**	$	832

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 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.

13. PENSION BENEFITS

Establishment of new pension plans

Effective January 1, 2018, new pension plans were established for certain active hourly employees of Stelco on substantially 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 as part of Stelco's plan of compromise, arrangement and reorganization under the *Companies' Creditors Arrangement Act* (CCAA). Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco is required to make annual contributions for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 million annually and decline to $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the Pension Benefit Act (Ontario) including, applicable solvency funding requirements. The current service costs for these plans for the three months ended March 31, 2018 is $2 million, which is recorded as an employee (active) benefits expense within cost of goods sold on the Consolidated Statement of Income.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital and other operating activities comprise the following:

Three months ended March 31,		**2018**		2017
Change in non-cash working capital:				
Trade and other receivables	**$**	**(9)**	$	(27)
Inventories		**46**		49
Prepaid expenses		**9**		7
Trade and other payables		**11**		(15)
Other liabilities		**(1)**		54
	$	**56**	$	68
Change in other operating activities:				
Provisions	**$**	**1**	$	—
Pension benefits		**1**		13
Employee benefit commitment		**(13)**		—
Other		**2**		(5)
	$	**(9)**	$	8
Change in non-cash working capital and other operating activities	**$**	**47**	$	76

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the carrying values and fair values of financial instruments:

	March 31, 2018		December 31, 2017	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 35**	**$ 35**	$ 45	$ 45
Restricted cash	**11**	**11**	12	12
Trade and other receivables	**214**	**214**	203	203
Financial liabilities:				
Trade and other payables	**195**	**195**	310	310
Derivative financial instruments	**10**	**10**	—	—
Other liabilities	**66**	**66**	67	67
Employee benefit commitment	**331**	**346**	344	358

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 are carried at their fair value and include foreign currency forward contracts and commodity-based swaps. The liabilities are categorized as Level 2 on the fair value hierarchy and their fair value is determined using quoted forward exchange rates as at the financial reporting period end dates. The Company has no level 3 financial instruments. There were no transfers between level 1, level 2 or level 3 during the period ended March 31, 2018.

16. 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 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	**March 31, 2018**	December 31, 2017
Amounts drawn under inventory monetization arrangement	**$ 33**	$ 121
Amounts available under asset based lending facility	**273**	269
Total	**$ 306**	$ 390
Total equity	**337**	309
Total capital	**$ 643**	$ 699

Asset-based lending (ABL) facility

At March 31, 2018, Stelco had a $nil outstanding balance and $273 million available to be drawn from its ABL facility. Additionally, the Company had letters of credit outstanding as at March 31, 2018 in the amount of $36 million (December 31, 2017 - $35 million).

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted, unaudited)

17. COMMITMENTS AND CONTINGENCIES

Operating leases

Stelco 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, the Company sold and leased back under a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated.

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 Balance Sheet, Statement of Income (Loss) or Cash Flows.

Purchase commitments

At March 31, 2018, the Company had future commitments of approximately $13 million for capital expenditures.

18. RELATED PARTY TRANSACTIONS

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, directors, key management personnel, 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 periods:

For the three months ended March 31,	**2018**	2017
Purchases of services		
Joint ventures	**$ 4**	$ 6
Bedrock Industries B.V.	**1**	—

As at	**March 31, 2018**	December 31, 2017
Amounts payable to related parties		
Stelco Holdings Inc.	**$ 7**	$ 3
Bedrock Industries B.V.	**1**	1

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 three months ended March 31, 2018, Stelco recorded $1 million (March 31, 2017 - $1 million) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.