FIRST QUARTER 2018
MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO INC.

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

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Inc.'s results of operations and financial performance for the three months ended March 31, 2018 (Q1 2018). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Inc. and its consolidated subsidiaries, and does not include or refer to Stelco Holdings Inc. (Holdings). This MD&A, which has been prepared as of May 2, 2018, should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three months ended March 31, 2018 (Consolidated Financial Statements) as well as the annual consolidated financial statements and MD&A for the period ended December 31, 2017 (2017 MDA). Our March 31, 2018 Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to Stelco, including Holdings' 2017 Annual Information Form, for the year ended December 31, 2017 (2017 AIF), have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website at www.sedar.com.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "*Business Overview"; "Strategy";* "*Review of Quarterly Financial Results*"; "*Capital Resources and Liquidity*"; *"Risk and Uncertainties*" sections of this MD&A and in the "*Risk Factors*" section in the 2017 AIF.

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

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

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

The forward-looking information contained in this MD&A represents management's expectations as of the date of this MD&A and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to, those described below and referred to under the heading "*Risk and Uncertainties*" below and under the heading *"Risk Factors"* in the 2017 AIF.

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

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

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

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

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

U.S. Section 232 Trade Expansion Act

On April 20, 2017, the United States administration issued an executive order directing the United States Department of Commerce to investigate whether imports of foreign steel are harming US national security. The directive falls under Section 232 of the Trade Expansion Act of 1962, which allows the US president to restrict trade of a good if such trade is determined to be harmful to US national security.

On February 16, 2018, the US Department of Commerce released its report regarding the Section 232 investigation. The recommendations in that report include options regarding tariffs and/or quotas are intended to adjust the level of steel imports into the United States as it has been determined that those imports are an impairment to national security. Under the statute, the US president is required to adopt, modify or take no action on these recommendations. During March 2018, the US administration suspended the implementation of any steel and aluminum tariffs by exempting Canada, and certain other countries. On April 30, 2018, the US administration issued a proclamation extending the exemption from steel tariffs for Canada (and other countries including Mexico and the European Union) for 30 days while discussions continue to secure a long term agreement.

While the imposition of either tariffs or quotas on steel imports into the United States from Canada presents a potential risk, we believe this risk may be mitigated by our continued focus on the development of additional markets for our products. In addition to the risk presented by either tariffs or quotas, there is associated risk of steel imports traditionally destined for the United States being diverted into the Canadian market which could impact domestic demand and pricing. We continue to monitor these developments and anticipate that Canada will continue to be exempt from US steel and aluminum tariffs potentially through the revised North American Free Trade Agreement.

Strategy

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

Optimize Production From our Assets

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

Maintain our Strong Balance Sheet

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining our strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including Advanced High Steel Strength (AHSS) and Ultra High Steel Strength (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and OPEBs. Further, we have approximately $1.1 billion of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at March 31, 2018, which may allow us to reduce our cash tax payments and increase free cash flow generation. We seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

Maximize Profitability and Cash Flow

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

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

Grow our Business

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

Non-IFRS Performance Measures

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

These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Reconciliation of these measures to IFRS can be found in the "*Review of Non-IFRS Measures*" section of this MD&A.

Adjusted Net Income

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

Adjusted EBITDA

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

Adjusted EBITDA per net ton

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

Selling Price per net ton

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

Shipping Volume

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

Selected Quarterly Information

The following table provides selected quarter information for the respective periods as indicated:

(millions of Canadian dollars, except where otherwise noted)				
Three months ended March 31,		**2018**		2017
Financial results				
Total revenue	**$**	**482**	$	386
Gross profit		**68**		46
Selling, general and administration expenses		**11**		10
Net income (loss)		**28**		(17)
Adjusted net income[1]		**49**		8
Adjusted EBITDA[1]		**70**		64
Operating Results				
Selling price per nt (in dollars per nt)[1]		**786**		774
Adjusted EBITDA per nt (in dollars per nt)[1]		**114**		128
Shipping volumes (in thousands of nt)[2]		**613**		499
Hot-rolled		**491**		340
Coated		**84**		121
Cold-rolled		**15**		14
Other		**23**		24
As at		**March 31, 2018**		December 31, 2017
Financial position				
Total assets	**$**	**946**	$	1,035
Total non-current liabilities		**332**		351

[1] The definition and reconciliation of these non-IFRS measures are included in the "*Non-IFRS Performance Measures*" and "*Review of Non-IFRS Measures*" sections of this MD&A.

[2] Based on shipping volumes in the first quarter of 2018, we would expect an annualized run rate of 2.5 million net tons compared to actual shipments of 2.0 million net tons in 2017.

Review of Quarterly Financial Results

Net income for the quarter increased by $45 million, from a net loss of $17 million in first quarter of 2017, to net income of $28 million in the first quarter of 2018. The increase was largely due to the the net effect of the following:

Revenue

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

Revenue increased by $96 million, or 25%, from $386 million in Q1 2017 to $482 million in Q1 2018, primarily due to an increase in shipping volumes and the selling price per nt in connection with a general improvement in the market price of steel. Selling price per nt increased by $12 per nt, from $774 per nt in Q1 2017 to $786 per nt in Q1 2018. The increase in selling price in the first quarter of 2018 compared to the same period in 2017 is mainly due to higher market prices for steel, which reflects macroeconomic conditions around supply and demand for steel products. The sales product mix for our hot-rolled and coated products represented approximately 80% and 14%, respectively, of the total sales volume in Q1 2018, whereas the comparative period in 2017 was approximately 68% and 24% respectively.

Gross profit

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

Gross profit increased by $22 million, or 48%, from $46 million in Q1 2017 to $68 million in Q1 2018 mainly due to higher revenue, partially offset by an increase in cost of goods sold. The higher cost of goods sold was attributed to an increase in raw material costs and higher shipping volumes. Raw material costs increased period-over-period due to market price increases for materials such as metallurgical coal (due in part to certain spot purchases), iron ore and scrap metal.

Included in gross profit for the period is 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.

Selling, general and administrative expenses

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

(millions of Canadian dollars) Three months ended March 31,	**2018**	2017
ERP implementation	**$ 4**	$ 4
Employee (active) salary and benefits expense	**4**	2
Professional, consulting and legal fees	**2**	1
Management fees	**1**	—
Employee (inactive) benefits expense	**—**	2
Shared service arrangement	**—**	1
	$ 11	$ 10

SG&A expenses for the three months ended March 31, 2018 primarily include the following: $4 million in employee salary and benefits, $4 million in ERP implementation expenses relating to the separation from USS and $2 million in professional, consulting and legal fees. Costs related to the establishment of our new cloud based ERP system do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

Finance costs

(millions of Canadian dollars) Three months ended March 31,	**2018**	2017
Accretion of employee benefit commitment	**$ 9**	$ —
Remeasurement of employee benefit commitment [1]	**4**	—
Interest on loans and borrowings	**2**	52
Accretion on financial lease obligation	**1**	—
Foreign exchange gain	**—**	(3)
Other	**—**	1
	$ 16	$ 50

1. Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements.

Finance costs decreased by $34 million, or 68%, from $50 million in the first quarter of 2017, to $16 million in the first quarter 2018, primarily due to an $50 million decrease in interest on loans and borrowings related to the extinguishment of $1.8 billion of debt during the second quarter of 2017 through the CCAA process. This was partly offset by $13 million of accretion and remeasurement expenses associated with our employee benefit commitment obligation and $3 million related to the gross impact period-over-period of foreign exchange translation on U.S. dollar denominated working capital.

The Company's employee benefit commitment obligation is measured based on using a discounted cash flow analysis of expected cash flows to be paid in future periods to the independent pension and OPEB trusts that were established upon the Company's emergence from CCAA. 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 in finance costs on the consolidated statements of income.

The determination of this liability 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.

Finance and other income (loss)

Finance and other income (loss) decreased by $15 million, from income of $5 million in the first quarter of 2017, to a loss of $10 million in the first quarter 2018, primarily due to a $10 million unrealized fair value loss from commodity based swaps and lower other income of $5 million related to certain recoveries of insurance claims and property tax rebates recognized during Q1 2017.

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's commodity-based swap liability was approximately $10 million and recorded within trade and other payables on the consolidated balance sheet.

Restructuring

As a result of the CCAA proceedings, the Company incurred restructuring and other costs in 2014 through to 2018. The expenses primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses.

(millions of Canadian dollars)				
Three months ended March 31,		**2018**		2017
Consulting and monitor costs [1]	**$**	**1**	$	4
Legal costs		**—**		4
Other		**2**		—
	$	**3**	$	8

1. Consulting costs are expected to continue during 2018.

Review of Non-IFRS Measures

Adjusted net income

The following table provides a reconciliation of net income (loss) to adjusted net income for the periods indicated:

(millions of Canadian dollars, except where otherwise noted)				
Three months ended March 31,		**2018**		2017
Net income (loss)	**$**	**28**	$	(17)
Add back/(Deduct):				
Unrealized loss from commodity-based swaps		**10**		—
Remeasurement of employee benefit commitment [1]		**4**		—
Separation costs related to USS support services [2]		**4**		4
Restructuring costs [3]		**3**		8
Provision on pension and other post-employment benefits [4]		**—**		13
Adjusted net income	**$**	**49**	$	8

1. Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The Company implemented its CCAA plan on June 30, 2017.
4. Represents difference between total cash funding obligation for pensions and OPEBs.

Adjusted net income increased by $41 million from an adjusted net income of $8 million during Q1 2017 to an adjusted net income of $49 million in Q1 2018. The improvement was largely due to higher revenue and lower finance costs. For discussion and analysis of our revenue and finance costs, refer to *'Review of Quarterly Financial Results'* section in this MD&A.

Included in Adjusted net income for the period is 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.

Adjusted EBITDA

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

(millions of Canadian dollars, except where otherwise noted) Three months ended March 31,		2018		2017
Net income (loss)	**$**	**28**	$	(17)
Add back/(Deduct):				
Depreciation		**9**		7
Finance costs		**16**		50
Finance income		**—**		(1)
Unrealized loss from commodity based swaps		**10**		—
Provision on pension and other post-employment benefits [1]		**—**		13
Separation costs related to USS support services [2]		**4**		4
Restructuring costs [3]		**3**		8
Adjusted EBITDA	**$**	**70**	$	64
Adjusted EBITDA as a percentage of total revenue		**15%**		17%

1. Represents difference between total cash funding obligation for pensions and OPEBs and amount already reflected in EBITDA.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The Company implemented its CCAA plan on June 30, 2017.

Adjusted EBITDA

Adjusted EBITDA included adjustments for the following items: commodity based swaps, provision on pension and other post-employment benefits, restructuring costs related to CCAA, and separation costs related to USS support services.

Adjusted EBITDA increased by $6 million, or 9%, from $64 million during Q1 2017 to $70 million in Q1 2018. The increase was largely due to higher revenue from increased shipping volumes and a general improvement in the market price of steel. For discussion and analysis of our revenue, refer to *'Review of Quarterly Financial Results'* section in this MD&A.

Included in Adjusted EBITDA for the period is 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.

Other Non-IFRS Measures

Selling price per net ton

Selling price per nt increased by $12 per nt or 2%, from $774 per nt in Q1 2017 to $786 per nt in Q1 2018. The increase in the selling price per nt was due to a general improvement of the market price of steel. The sales product mix for our hot-rolled and coated products represented approximately 80% and 14%, respectively, of the total sales volume in Q1 2018, whereas the comparative period in 2017 was approximately 68% and 24% respectively.

Adjusted EBITDA per net ton

Adjusted EBITDA per nt decreased by $14 per nt, or 11%, from $128 per nt in Q1 2017 to $114 per nt in Q1 2018, as a result of a 114 thousand nt increase in shipping volumes, partly offset by an increase of Adjusted EBITDA of $6 million in Q1 2018 compared to the comparative period in 2017.

Shipping Volume

Shipping volume increased 114 thousand nt or 23%, from 499 thousand nt in Q1 2017 to 613 thousand nt in Q1 2018. Hot-rolled coil shipments increased 44% from 340 thousand nt in Q1 2017 to 491 thousand nt in Q1 2018. Coated shipments decreased 31% from 121 thousand nt in Q1 2017 to 84 thousand nt in Q1 2018. Cold-rolled coil shipments increased 7% from 14 thousand nt in Q1 2017 to 15 thousand nt in Q1 2018. Other shipments (including non-prime coils) decreased 4% from 24 thousand nt in Q1 2017 to 23 thousand nt in Q1 2018.

Review of Balance Sheets

The following table provides selected balance sheet information as indicated:

(millions of Canadian dollars) As at		March 31, 2018		December 31, 2017
Cash and cash equivalents	$	**35**	$	45
Trade and other receivables		**214**		203
Inventories		**370**		448
Property, plant and equipment		**303**		305
Total assets	$	**946**	$	1,035
Trade and other payables		**205**		310
Other liabilities		**66**		67
Employee benefit commitment		**331**		344
Total liabilities	$	**609**	$	726
Total equity	$	**337**	$	309

As reflected in the selected balance sheet information above, between December 31, 2017, and March 31, 2018 (subsequent from the emergence from CCAA), the Company reduced trade and other payables from $310 million to $205 million (a reduction of $105 million, or 34%), reduced other liabilities from $67 million to $66 million (a reduction of $1 million, or 1%), reduced total liabilities from $726 million to $609 million (a reduction of $117 million, or 16%), and increased total equity from $309 million to $337 million (an increase of $28 million).

Our inventory decreased from $448 million at December 31, 2017 to $370 million at March 31, 2018, primarily due to a decrease in raw materials relating to the production of steel and lower raw material receipts during the period. Receipts of raw materials during the winter months are typically lower than other months of the year, as a result of the closure of international waterways limiting deliveries from vessel and barge shipments.

During the first quarter of 2018, the Company repaid a net amount of approximately $90 million of the amounts drawn under the inventory monetization arrangement. Changes in the carrying amounts are primarily repayments related to receipts and consumption of raw materials by the Company monetized under this arrangement. As at March 31, 2018, amounts drawn under this arrangement had a carrying value of $33 million compared to $121 million as at December 31, 2017.

We expect our cashflow from operations to be favourably impacted in the short to medium term due to substantial tax attributes which, as at March 31, 2018, can shield pre-tax income of approximately $1.1 billion (or approximately $282 million on an after tax basis) from taxation. These tax attributes consist of non-capital loss carry forwards of $796 million ($199 million after tax), UCC deductions of $299 million ($75 million after tax) and SRED deductions of $36 million ($9 million after tax), which are expected to reduce the amount of taxes otherwise payable by Stelco and form part of future deposits into the independent employee life and health benefit trusts (ELHTs). Refer to "*Employee Benefit Commitments*" section in this MD&A for further details.

Review of Cash Flows

The following section provides an overview analysis of cash flows for the respective periods as indicated:

(millions of Canadian dollars) Three months ended March 31,		2018		2017
Cash and equivalents, beginning of period	$	**45**	$	188
Cash flows from (used in):				
Operating activities		**82**		66
Investing activities		**(6)**		(5)
Financing activities		**(86)**		—
Cash and cash equivalents, end of period	$	**35**	$	249

Cash Flows From Operating Activities

For the first quarter of 2018, cash flows provided by operating activities totaled $82 million compared to cash provided by operating activities of $66 million for the first quarter of 2017. Cash flows provided by operating activities for Q1 2018 was $16 million, or 24%, higher than Q1 2017, as the Company benefited from higher steel prices and increased total shipping volumes, partly offset by the impact of lower working capital, mainly from a lower inventory balance compared to December 31, 2017.

Cash Flows Used in Investing Activities

For the first quarter of 2018, cash flows used in investing activities totaled $6 million compared to cash used in investing activities of $5 million for Q1 2017. Due to cash conservation efforts throughout the CCAA restructuring process, non-essential capital expenditures were decreased to minimal levels prior to June 30, 2017. Primary capital expenditures included project spending related to the blast furnace, hot strip mill and other projects relating to operations. The increase in capital spending period-over-period was primarily a result of the timing of scheduled capital spending.

Cash Flows From Financing Activities

For the first quarter of 2018, cash flows used in financing activities totaled $86 million and included the following: repayment from an inventory monetization arrangement of $90 million; an advance from Holdings of $4 million; and asset-based (ABL) credit facility draws and repayments of $29 million during the period.

Results of Operations

Stelco continues to experience improving market conditions and favourable pricing trends across its key products. Steel prices continued to increase during the first quarter of 2018 and remain influenced by overall international demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Volatile metal prices may cause fluctuations in our financial results.

We continue to experience a strong order book on our products, including hot-rolled, cold-roll and coated coils, with an estimated delivery lag time of eight to ten weeks from the date of order. We have sold excess coke to third parties and are in active discussions with other potential parties regarding sales of coke from our HW coke battery. This creates additional revenue and improve our costs as a result of operating leverage.

During the first quarter of 2018, Stelco continued to be impacted by a truck and driver shortage which has resulted in increased transportation costs across North America. In addition, cold weather made barge shipping impractical for most of the quarter. As a result,, in order to support our current production levels and higher customer orders, during the first quarter of 2018, the Company expanded its distribution capabilities by adding approximately 220 rail cars to its transportation fleet through leasing arrangements, and we plan to add more in the coming months. Most of these rail cars are expected to be in service by mid-May, 2018. In addition, we expect to add approximately 160 additional rail cars over the balance of the year. Each rail car is capable of carrying up to 90 nt of steel compared to the typical freight truck which is capable of carrying up to 30 nt of steel. Furthermore, we have increased our shipping capacity through our LEW dock enhancement project which is expected to be substantially complete in May 2018. Barges capable of being loaded from our LEW dock are typically capable of carrying between 8 to 12 thousand nt of steel. These enhancements are expected to result in increased shipping volumes. The capital projects described in Stelco Holdings' prospectus relating to the initial public offering remain largely on schedule and on budget.

We executed a number of strategic outages during the quarter, including at our hot strip mill. The outages were intended to improve reliability and efficiency, and were in preparation for hot strip mill enhancements planned for later in 2018 and 2019. The outages resulted in incremental R&M costs of approximately $6 million in the quarter. Furthermore, we continued to focus on business strategies of asset optimization and expansion of our product capabilities through initiatives such as: utilizing excess capacity at our LEW's hot strip mill, restarting HW's temper mill and installing annealing furnaces, and upgrading finishing mill roll bearings at our hot strip mills. We expect that successful completion of these initiatives will ultimately help us grow our revenues, improve our steel production capabilities and lower our total costs per nt. We anticipate that these initiatives will be completed during 2019.

Capital Resources and Liquidity

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

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

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

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

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

- the Company's overall working capital position was significantly improved because of the CCAA restructuring;
- the Company has negotiated favourable payment terms with its vendors, thereby improving its working capital without the need for additional funding;
- as at March 31, 2018, the Company had a cash balance of approximately $35 million and approximately $273 million available under its ABL credit facility;
- the inventory monetization arrangement continues to provide the Company liquidity on certain of its raw material purchases;

- as at March 31, 2018, Holdings (on a non-consolidated basis) had a cash balance of approximately $226 million, a portion of which could be made available to the Company for general corporate purposes and working capital.

Credit Facility and Other Arrangements

ABL Credit Facility

In connection with Stelco's emergence from CCAA, the Company entered into an asset-based revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375 million. The amount available to be drawn under the ABL credit facility will vary from time to time, based upon a borrowing base determined with reference to the Company's trade receivables and certain inventory balances. At March 31, 2018, the available borrowing base was $273 million. The interest on Canadian/US dollar denominated funds is the Canadian/US prime rate plus 1% - 1.5%, depending on the amount that has been drawn under the facility, and is payable monthly. 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 March 31, 2018 in the amount of $36 million. During the period ended March 31, 2018, the Company borrowed certain amounts under the facility as required and repaid the entire amount during the period resulting in a nil outstanding balance as at March 31, 2018.

Inventory Monetization Arrangement

On December 11, 2017, Stelco Inc. entered into an inventory monetization arrangement which is subject to a financing rate of LIBOR plus a margin of 3.5%. Under the terms of the arrangement, 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 a specified maximum volume. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty. Any amount remaining outstanding under the arrangement in respect of raw material inventory that is not consumed during the term, is due and payable on October 31, 2018 with an option to terminate the arrangement earlier, on either August 31, 2018 or September 28, 2018. The arrangement also provides the parties an option to renew the agreement for additional one-year terms, subject to both parties electing to renew.

Cash amounts advanced under this arrangement represent a financial liability to the Company which is recorded within other payables on the Company's statement of financial position. As at March 31, 2018, amounts advanced under this arrangement were $33 million compared to $121 million as at December 31, 2017.

Share Capital

The Company has authorized share capital including an unlimited number of common shares with no par value. As at March 31, 2018, the Company has 345 issued and outstanding common shares with a carrying value of $2,325 million.

Commitments and Contingencies

Employee Benefit Commitments

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

Other Commitments

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

Local 1005, each for a term of 5 years ending July 1, 2022.

Operating Leases

The Company has operating leases on certain machinery and equipment, with lease terms between three and five years. Additionally, in connection with the Company's emergence from CCAA, the Company sold and leased back the land on which HW and LEW are situated under a 25 year lease.

Finance Leases

As at March 31, 2018, Stelco has a finance lease obligation with a carrying value of $24 million, associated with certain equipment and buildings on its consolidated balance sheets.

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 sheets, results of operations, or cash flows.

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at March 31, 2018:

		Payments due by period		
(millions of Canadian dollars)	Total	2018 [3]	2019 to 2022	Thereafter
Trade payables	$ 151	$ 151	$ —	$ —
Inventory monetization arrangement	33	33	—	—
Operating leases	166	4	24	138
Finance lease obligations	72	—	9	63
Purchase obligations - non-capital [1]	805	608	119	78
Purchase obligations - capital	13	7	2	4
Employee benefit commitment [2]	730	28	179	523
Total Contractual Obligations	$ 1,970	$ 831	$ 333	$ 806

1 Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
2 Represents estimated undiscounted employee benefit commitment obligation.
3 Amounts pertains to the remaining nine months of 2018.

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

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 ventures, investments in associates, among other entities and persons.

Upon being acquired on June 30, 2017, the Company became a related party of Bedrock. The Company has executed a management services agreement with an affiliate of Bedrock under which the Company will receive senior management, commercial, business development, operating, financial, human resources, and executive recruitment services, as well as other services that may be required from time to time. Fees for services will be based upon actual costs incurred by Bedrock, plus a 2% mark-up on management services fees up to $5 million, and any services above $5 million will be reimbursed at cost. As at March 31, 2018, the Company has payables owing to Holdings (as further described below) of $7 million and payables related to Bedrock of $1 million. The Company has incurred expenses of $1 million in management services provided by Bedrock and its affiliated entities for the period ended March 31, 2018.

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

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise the Executive Senior Leadership Team (ESLT). 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 is comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Business Development Officer, and General Counsel & Corporate Secretary of the

Company.

During Q1 2018, Stelco recorded $1 million (Q1 2017 - $1 million) as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits.

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)	**2018**	2017				2016		
As at and for the three months ended [1]	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial results								
Total revenue	**$ 482**	$ 452	$ 336	$ 427	$ 386	$ 312	$ 373	$ 334
Gross profit (loss)	**68**	69	12	65	46	(12)	51	14
Selling, general and administrative expenses	**11**	15	12	40	10	5	7	6
Net income (loss)	**28**	16	(13)	3,593	(17)	(83)	(18)	(57)
Adjusted net income (loss)[2]	**49**	49	(9)	(3)	8	(47)	3	(36)
Adjusted EBITDA[2]	**70**	69	7	76	64	20	65	26
Financial position								
Total assets	**946**	1,035	850	854	n.a.	1,200	n.a.	n.a.
Total non-current liabilities	**332**	351	325	392	n.a.	1,036	n.a.	n.a.
Operating results								
Selling Price per nt (in dollars per nt)[2]	**786**	764	818	851	774	674	749	645
Adjusted EBITDA per nt (in dollars per nt)[2]	**114**	117	17	151	128	43	131	50
Shipping volumes (in thousands of nt)	**613**	592	411	501	499	463	498	517
Hot-rolled	**491**	473	299	359	340	322	366	375
Coated	**84**	77	78	103	121	104	105	115
Cold-rolled	**15**	15	12	17	14	8	4	1
Other	**23**	27	22	22	24	29	23	26

n.a. - not applicable.

[1] Period end date refers to the following: "Q4" - December 31, "Q3" - September 30, "Q2" - June 30, and "Q1" - March 31.

[2] The definition and reconciliation of these non-IFRS measures are included in the "*Non-IFRS Performance Measures*" and "*Review of Non-IFRS Measures*" sections of this MD&A.

Trend Analysis

Total revenue has generally increased over the periods, reflecting both higher selling prices per nt and solid shipping volumes growth in our operations. The mix of our product sales has remained relatively consistent period-over-period with hot-rolled steel coils being our highest selling product over the past eight quarters. We experienced a general decline in our shipping volumes for Q3 2017 due to a planned blast furnace outage, which included applying a protective shotcrete refractory to the blast furnace internal walls to improve the operational reliability and extend the working life of the furnace.

With the exception of Q3 2017, the company has realized steady growth in gross profits during 2017. The increase in gross profits were primarily due to higher sales volumes and generally higher selling prices per nt than realized during 2016, partly offset by higher raw material costs. During Q3 2017, as previously noted in the revenue discussion above, the Company completed a blast furnace outage which reduced our sales volumes. Gross profit for Q3 2017 was impacted by lower sales, outage related costs, and higher raw material costs, partly offset by generally higher selling prices per nt for our steel products during the same the period. Compared to Q4 2017, our Q1 2018 gross profit includes the impact from a significant increase in purchased scrap costs, adding approximately $6 million in costs to our operations in the quarter. Increases in scrap market prices generally are a factor in the market price of hot-rolled coil steel. As a result of the lag we have in our business, we have historically experienced a delay between the expenses related to the increase in scrap costs and Stelco being able to capitalize on the higher market prices of hot-rolled coil. In addition, severe winter weather conditions impacted our operations and expenses during the quarter. In particular, an early freeze on the Great Lakes and severe cold weather resulted in incremental fuel and electricity costs of approximately $6 million, and $2 million of incremental raw material shipping costs. Also impacting the first quarter of 2018, as a result of a shortage of trucking assets across the United States and Canada, our shipping costs increased between $4 million and $5 million during the quarter, as compared to Q4 2017.

SG&A expenses generally increased during 2017 as the Company incurred costs associated with its separation from USS, in particular for Q2 2017, $17 million in cloud-based ERP implementation costs and $18 million in acquisition related costs.

With the exception of Q2 2017, net income (loss) has been steadily improving since Q1 2017. During Q2 2017, the company recorded a $3,665 million gain on emergence from CCAA. Excluding this gain, the Company had a net loss of $72 million which included the impact from $71 million in finance costs, $24 million in restructuring costs, and $40 million in SG&A (as discussed above).

With the exception of Q3 2017, Adjusted EBITDA has steadily improved in 2017 compared to 2016 due to generally higher revenues from market steel price increases and higher sales volumes (as noted above). During Q3 2017, consistent with the realized gross profit (as discussed above) for the period, Adjusted EBITDA was lower than the comparable periods in 2017, primarily due to the same factors impacting gross profit above.

Significant Accounting Policies

Stelco's Consolidated Financial Statements have been prepared by management in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, the 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).

The 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.

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.

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 statement of income.

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.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

At March 31, 2018, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Company, together with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and the CFO, and have designed internal controls over financial reporting and disclosure to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The CEO and CFO are assisted in this responsibility by senior management of Stelco. Stelco's senior management has established procedures so that it becomes aware of any material information affecting the Company in order to evaluate and communicate this information to the CEO and CFO, as appropriate and determine the appropriateness and timing of any required disclosure.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

Risk and Uncertainties

We believe our performance and future success depend on a number of factors that present significant opportunities for us. For a discussion of risk factors that have been identified by Stelco refer to the 2017 AIF and 2017 Annual MD&A and are available through the SEDAR website at www.sedar.com.

Corporate Information - Stelco Holdings Inc.

Executive Management

Alan Kestenbaum
Chief Executive Officer

Don Newman
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

David Cheney
Chief Business Development Officer

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

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

Michael W. Dees [4]
Partner, Lindsay Goldberg

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

Alan Goldberg
Co-Founder and Chief Executive Officer, Lindsay Goldberg

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

Peter Bowie [1]
Corporate Director

Jacob Lew
Partner, Lindsay Goldberg

Indira Samarasekera
Corporate Director

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

Auditors

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L8P 4W7

Transfer Agent and Registrar

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(416) 263-9200
Fax: 1 (888) 453-0330
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Stock Exchange Listing

The Toronto Stock Exchange
Stelco Holdings Inc. trading symbol: STLC

Shareholder Information

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Shareholder and Investor Contact

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Chief Financial Officer
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