



THIRD 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 and nine months ended September 30, 2018 ('Q3 2018' and 'YTD 2018', respectively). 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 November 13, 2018, should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three months and nine months ended September 30, 2018 (Consolidated Financial Statements) as well as the annual consolidated financial statements and MD&A for the year ended December 31, 2017 (2017 MD&A). Our September 30, 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*"; "*Results of Operations*"; "*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; the Company's position to grow organically; expectations regarding utilization of excess capacity; 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; expectations concerning enhanced shipping volumes; statements regarding our dividend policy; expectations concerning working capital and capital expenditures and the future actions relating thereto and the anticipation of creating value and profitability; expectations regarding the Company's ability to continue to attract new customers and further develop and maintain existing customers; expectations regarding the Company's ability to continue to access markets without any further adverse trade restrictions; expectations regarding industry trends, market growth rates and the Company's future growth rates, plans and strategies to increase revenue and cut costs; expectations regarding the future pricing of steel and metals and its resulting impact; statements regarding the impact of the steel import tariffs; statements regarding the potential development opportunities in respect of the Lands (as defined); statements regarding the impact of tax attributes.

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.



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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 and 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 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 that 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 imposed tariffs on steel and aluminum imports into the US, but suspended the implementation of any steel and aluminum tariffs by exempting Canada and certain other countries. On May 31, 2018, the US administration signed a proclamation that as of June 1, 2018, tariffs will no longer be suspended for steel or aluminum imports from Canada, Mexico and the European Union.

On May 31, 2018, the Government of Canada responded to the Section 232 tariffs on steel by announcing its intention to impose surtaxes or similar trade-restrictive countermeasures on steel, aluminum and other specified goods imported from the United States, with a value of up to \$16.6 billion. On July 1, 2018, tariffs on steel imported from the United States went into force and were set at 25 per cent, the same tariff rate that the United States applied to Canadian steel under Section 232.

On September 30, 2018, the United States, Canada and Mexico tentatively agreed on a revised trade agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA) with the goal being to modernize and reinforce strong economic ties between the three countries while supporting businesses and workers within North America. The USMCA generally maintains the tariff-free market access from NAFTA and provides key outcomes for Canadian businesses, workers and communities in areas such as labour, environment, automotive trade, dispute resolution, culture, energy, and agriculture and agri-food.

Although the USMCA addresses most aspects of trade between the countries, tariffs on steel and aluminum remain in place. A key Canadian objective in the NAFTA renegotiations was to obtain an exemption from potential future use of U.S. Section 232 measures. The potential use of these measures threatens Canadian producers and workers. Under the USMCA, Canada secured a commitment from the U.S. to provide at least a 60-day exemption from any future measures under Section 232. During this time, the U.S. and Canada would seek to negotiate an appropriate outcome based on industry dynamics and historical trading patterns. At the time of the agreement, it was expected that the USMCA would be signed by the end of November 2018. Once the agreement is signed by all three countries, it is subject to the approval of the Canadian, U.S., and Mexican governments prior to taking effect.

While these developments are not optimal, Stelco has repeatedly demonstrated its resiliency as a leading advanced integrated steel producer in North America, its agility through multiple modes of transportation (water, rail and truck) and financial security through a robust balance sheet. We believe that Stelco can operate successfully in all types of economic environments. Furthermore, the imposition of tariffs on steel imports from the United States presents a potential opportunity for increased demand for our products in the domestic Canadian market that could in part mitigate any impact resulting from the tariffs imposed by the United States.

We continue to monitor these developments and anticipate that the Government of Canada will continue to support the businesses and workers impacted by the US administration trade measures.

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Trade Remedy: Dumping and Subsidy Investigations

On May 25, 2018, the Canada Border Services Agency (CBSA) initiated investigations under the *Special Import Measures Act* respecting the alleged injurious dumping and subsidizing of certain cold-rolled steel from China, South Korea and Vietnam. On July 24, 2018, the Canadian International Trade Tribunal (CITT) announced their determination that there is evidence that discloses a reasonable indication that the dumping and subsidizing of the above-mentioned goods have caused or are threatening to cause injury to the domestic industry. On August 23, 2018, the CBSA announced that imports of subject goods will be subject to provisional duties at the following specified rates: China - 103.5%; South Korea - 64.3%; and Vietnam - 105.7%. The CITT will conduct hearings starting November 19, 2018 and make their final determination by the end of 2018.

On July 26, 2018, the CBSA initiated investigations under the *Special Import Measures Act* respecting the alleged injurious dumping of certain corrosion resistant steel from China, South Korea, India and Taiwan. On September 24, 2018, the CITT announced their determination that there is evidence that discloses a reasonable indication that the dumping of the above-mentioned goods have caused or are threatening to cause injury to the domestic industry. On October 24, 2018, the CBSA announced that imports of subject goods will be subject to provisional duties. While certain exporters were assigned individual provisional duty rates, all other exporters from the subject countries were assigned provisional duties at the following specified rates: China - 44.2%; Chinese Taipei - 24.7%; India - 39.3%; and South Korea - 39.3%. The CITT has scheduled hearings for January 2019 and will make their final determination during the first quarter of 2019.

Initiation of Safeguard Measures

Safeguards are trade measures imposed under international trade rules in exceptional circumstances to respond to increases in imports that may harm Canadian producers and workers. Following a period of consultation, it was determined that steps needed to be taken to prevent the diversion of foreign steel products into Canada resulting from Section 232 measures in the United States, as well as responsive trade measures taken in other jurisdictions.

On October 11, 2018, the Government of Canada announced that it had directed the CITT to inquire into and report on the importation of the following seven classes of goods: energy tubular; heavy plate; hot-rolled sheet; pre-painted steel; concrete reinforcing bar; wire rod; and stainless steel wire. The purpose of this inquiry is to determine whether any of the above-mentioned goods are being imported into Canada in such increased quantities and under such conditions as to be a principal cause of serious injury or threat thereof to Canadian producers of like or directly competitive goods. The CITT will conduct safeguard hearings for each of the above noted products during January 2019, and issue a report to the Minister of Finance, including any recommendations by April 3, 2019.

Also on October 11, 2018, the Government of Canada announced provisional safeguard measures on the above noted steel products. Beginning on October 25, 2018, imports of these seven steel products will be subject to a surtax of 25 per cent, in cases where the level of imports from trading partners exceeds historical norms. Provisional safeguards are intended to provide Canadian steel producers and workers relief from the harm caused by excessive imports of steel products into Canada. These provisional measures will remain in force for a period of 200-days.

We continue to monitor imports of steel products into Canada and support the utilization of the domestic trade remedy system when and where circumstances warrant to combat dumped and subsidized imports from injuring our business and to aid in the stabilization of the domestic market.

Land and Building Acquisition

On June 5, 2018, Stelco acquired the land and buildings beneficially owned by Legacy Lands Limited Partnership (the Land Vehicle) on which Stelco conducts its operations in Hamilton (approximately 760 acres) and Nanticoke, Ontario (approximately 2,300 acres), including lands in Hamilton that contain the HW blast furnace and cast houses, as well as developable lands and port facilities (collectively, the Lands). The purchase price payable for the Lands was approximately \$114 million and was financed with a 25-year, 8% per annum mortgage payable (the Mortgage) issued to the Land Vehicle. The quarterly Mortgage payments will be distributed by the Land Vehicle to fund various pension and other post-employment benefit commitments (OPEBs) for Stelco retirees.

In connection with the Lands acquisition, existing lease arrangements between Stelco and the Land Vehicle were terminated and the associated rental payments were canceled, resulting in Stelco's buildings', which were previously held under a finance lease, to be reclassified and recorded as wholly-owned buildings on the Company's consolidated balance sheet. The total purchase consideration of \$114 million included land costs of \$85 million (which excludes \$4 million of transaction costs) and the extinguishment of lease related obligations of \$29 million.

Also in acquiring the Lands, Stelco assumed approximately 1.8 million metric tonnes of secondary waste materials, which under an approved secondary materials management plan (SMMP) with the Ministry of the Environment, Conservation and Parks (MOE), will either be utilized as infill by the Company on the site, sold to third parties or removed from the site and transferred to an external land fill. Under the terms of the SMMP, Stelco is required to manage these waste pile materials over a ten year period which is subject to the potential future use of the Lands. The implementation of the SMMP may be revised periodically in responses to changes in the types of waste materials and land utilization. The Company is assessing the future use requirements in respect of the Lands and will accrue a liability, with a corresponding increase to the acquisition cost, in the event that the future use of the lands requires Stelco to incur costs in connection with these waste materials.

The Lands acquisition provides Stelco with the flexibility to utilize the properties for its existing operations and allows Stelco to develop these properties in a manner that both complements our current and future operations and to pursue other uses for the Lands; in particular: (i) extracting additional value from our assets by enhancing operating flexibility previously unavailable to us, (ii) lowering our costs, and (iii) creating significant and previously unrealizable value for our shareholders through development of excess land and port facilities located in the Greater Toronto Area. In addition, the Company continues to receive the benefit of the

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environmental release in respect of the Lands that was granted by the MOE on closing of Stelco's *Companies' Creditors Arrangement Act* (CCAA) reorganization on June 30, 2017.

Amended OPEB Funding Agreement

Also on June 5, 2018, Stelco entered into an amended OPEB funding agreement (the Amended OPEB Funding Agreement) that reduced Stelco's exposure to future variable funding requirements (including future excess free cash flow contributions) and provided the independent employee life and health trusts (ELHTs) established as part of Stelco's CCAA reorganization, with an increased fixed funding commitment over a 25 year term. The Amended OPEB Funding Agreement replaces Stelco's funding obligations under the OPEB funding agreement that was entered into at the closing of Stelco's CCAA reorganization (the Original OPEB Funding Agreement).

In providing more fixed annual funding of OPEBs, the Amended OPEB Funding Agreement and Mortgage payments eliminates Stelco's variable funding obligations tied to excess free cash flow that could have resulted in significant additional OPEB funding contributions and provides greater certainty to our employees and retirees as to deposits into the trusts.

Refer to '*Review of Quarterly Financial Results - Finance costs*' and '*Review of Balance Sheets*' sections in this MD&A for further details.

Return of Capital

On July 31, 2018, the Company's Board of Directors approved a return of capital to Holdings in the amount of \$150 million, which was paid by the Company on August 13, 2018.

Strategy

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on four strategic objectives: (i) optimizing production from our assets; (ii) maintaining our strong balance sheet; (iii) maximizing profitability and cash flows; and (iv) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock's significant 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 \$876 million of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at September 30, 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.

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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) loss from commodity-based swaps, (ii) remeasurement of employee benefit commitment, (iii) provision on pension and other post-employment benefits, (iv) restructuring and other costs, (v) separation costs related to United States Steel Corporation (USS) support services, (vi) acquisition related costs, (vii) gain related to emergence from CCAA, and (viii) property related idle costs included in cost of goods sold. 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) loss on commodity-based swaps, (ii) provision on pension and other post-employment benefits, (iii) restructuring and other costs, (iv) separation costs related to USS support services, (v) acquisition related costs, (vi) gain related to emergence from CCAA, and (vii) property related idle costs included in cost of goods sold. 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.

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Tariff Adjusted EBITDA

Tariff Adjusted EBITDA, defined as Adjusted EBITDA adjusted for tariff and tariff related costs, is used by management to measure operating performance of the Company and is a supplement to our consolidated financial statements presented in accordance with IFRS. Tariff Adjusted EBITDA is a helpful measure of operating performance, similar to Adjusted EBITDA, enabling management, to gain a clearer understanding of the underlying financial performance of the Company without the impact of tariff and tariff related costs, which is currently under ongoing negotiations between the United States, Mexico and Canada separate from the recent tentative USMCA announced September 30, 2018. While management considers Tariff Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company, Tariff 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 ton 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.

Tariff Adjusted EBITDA per net ton

We monitor Tariff Adjusted EBITDA per nt, defined as Tariff Adjusted EBITDA (defined above) divided by Shipping Volume (defined below), as a key indicator of performance during the period. Generally, Tariff Adjusted EBITDA per nt is used by management, to measure Adjusted EBITDA on a per ton basis, while excluding the impact from tariff and tariff related costs. Tariff 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 from steel products divided by nt shipped in the period. Starting in the second quarter of 2018, we have modified the revenue component (or numerator) of the Selling Price per net ton measure to only include revenue from steel products. Previously, Selling Price per net ton included total revenue, which comprised of both revenue from steel products and non-steel products. We believe this change provides a greater level of consistency with total shipments (or denominator) of Selling Price per net ton, which only includes shipment of steel products during the period. The prior periods have been restated to reflect the change in presentation.

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.

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Selected Financial Information

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

	Three months ended September 30,		Nine months ended September 30,	
(millions of Canadian dollars, except where otherwise noted)	2018	2017	2018	2017
Financial results				
Total revenue	\$ 619	\$ 336	\$ 1,812	\$ 1,149
Gross profit	149	12	392	123
Selling, general and administration expenses	12	12	37	62
Net income (loss)	123	(13)	139	3,563
Adjusted net income (loss) ¹	131	(9)	333	(4)
Adjusted EBITDA ¹	154	7	399	147
Tariff Adjusted EBITDA ¹	193	7	449	147
Operating Results				
Selling price per nt (in dollars per nt) ¹	980	793	880	794
Adjusted EBITDA per nt (in dollars per nt) ¹	263	17	205	104
Tariff Adjusted EBITDA per nt (in dollars per nt) ¹	329	17	231	104
Shipping volumes (in thousands of nt)	586	411	1,947	1,411
Hot-rolled	446	299	1,527	998
Coated	82	78	259	302
Cold-rolled	19	12	67	43
Other	39	22	94	68
As at			September 30, 2018	December 31, 2017
Financial position				
Total assets			\$ 1,281	\$ 1,035
Total non-current liabilities			519	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.

Review of Quarterly Financial Results

Net income for the third quarter of 2018 was \$123 million compared to a net loss of \$13 million for the same period during 2017, representing a gross increase of \$136 million which is primarily due to the net effect of the following:

- \$137 million increase in gross profit from \$283 million higher revenue from sale of goods partly offset by \$146 million increase in cost of goods sold; partially offset by
- \$1 million increase in restructuring and other costs.

Net income for the nine months ended September 30, 2018, was \$139 million compared to \$3,563 million during 2017, representing a decrease of \$3,424 million. Net income for the 2017 period includes the impact of a \$3,665 million gain related to Stelco's emergence from CCAA, associated with the extinguishment and/or satisfaction of secured and unsecured claims through the CCAA process during the first half of the year. Excluding the \$3,665 million gain, net income for the 2018 period of \$139 million compared to an adjusted net loss for 2017 of \$102 million, resulted in a gross increase of \$241 million which is largely the net effect of the following:

- \$269 million increase in gross profit from \$663 million higher revenue from sale of goods partly offset by \$394 million increase in cost of goods sold;
- \$26 million decrease in restructuring and other costs; and
- \$25 million lower selling, general and administrative expenses; partly offset by
- \$65 million higher finance costs; and
- \$13 million gross increase in finance and other loss.

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,

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 centre, construction, energy, automotive and appliance industries across Canada and the United States.

Q3 2018

Revenue increased by \$283 million or 84%, from \$336 million in Q3 2017 to \$619 million in Q3 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 \$187 per nt, from \$793 per nt in Q3 2017 to \$980 per nt in Q3 2018. The increase in selling price in the third 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. Also impacting revenue for the quarter was non-steel sales which increased \$35 million, from \$10 million in the third quarter of 2017 to \$45 million during the same period in 2018, mostly due to metallurgical coke sales. Our shipping volumes increased to 586 thousand nt in Q3 2018 from 411 thousand nt in Q3 2017 primarily due to higher hot-rolled and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 76% and 14%, respectively, of the total sales volume in Q3 2018, whereas the comparative period in 2017 was approximately 73% and 19%, respectively.

YTD 2018

Revenue increased by \$663 million or 58%, from \$1,149 million in the first nine months of 2017 to \$1,812 million in the same period of 2018, primarily due to the same factors described above. Selling price per nt increased by \$86 per nt, from \$794 per nt in the nine months of 2017 to \$880 per nt in the same period of 2018. Also, impacting revenue for the period was non-steel sales which increased \$71 million, from \$28 million in the nine months of 2017 to \$99 million during the same period of 2018, mostly due to metallurgical coke sales. Our shipping volumes increased to 1,947 thousand in 2018 from 1,411 thousand in 2017 primarily due to higher hot-rolled and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 78% and 13%, respectively, of the total sales volume for the nine months of 2018, whereas the comparative period in 2017 was approximately 71% and 21%, respectively.

Gross profit

Gross profit reflects revenue from sale of goods 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.

Q3 2018

Gross profit increased by \$137 million, from \$12 million in Q3 2017 to \$149 million in Q3 2018 mainly due to higher revenue, partly offset by an increase in cost of goods sold. The higher cost of goods sold was mainly attributed to higher shipping volumes and an increase in raw material costs, tariffs, freight costs and depreciation expense. Raw material costs increased period-over-period primarily due to the following; contractual price escalations related to our iron ore purchases, higher zinc and scrap metal costs, partly offset by lower metallurgical coal prices. The Company incurred approximately \$39 million of tariff related charges during the third quarter of 2018 in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

Also impacting cost of goods sold for the third quarter of 2018, was unabsorbed manufacturing cost variances and other incremental expenses incurred as a result of a planned outage at our hot-strip mill. During September 2018, the Company successfully executed a hot-strip mill outage which is expected to provide better gauge control and increased rolling force, and enable Stelco to better participate in the AHSS, High Strength Low Alloy (HSLA), and value added coated steel markets. Included in cost of goods sold for the period was approximately \$10 million of outage related costs.

YTD 2018

Gross profit increased by \$269 million or 219%, from \$123 million in the first nine months of 2017 to \$392 million in same period of 2018, mainly due to the same factors described above. 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 period. In addition, the Company incurred approximately \$50 million of tariff related charges during 2018.

Selling, general and administrative expenses

Our selling, general and administrative (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. On October 2, 2018, Stelco completed the initial phase of the conversion to a new ERP system with the remaining phases of the ERP implementation expected to be substantially complete by the end of 2018.

(millions of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
ERP implementation	\$ 4	\$ —	\$ 14	\$ 17
Employee (active) salary and benefits expense	4	2	12	7
Management fees	2	1	4	1
Professional, consulting and legal fees	—	2	3	4
Acquisition related costs	—	—	—	18
Settlement of a contract cancellation	—	—	—	6
Employee (inactive) benefits expense	—	—	—	4
Shared service arrangement	—	—	—	2
Other ¹	2	7	4	3
	\$ 12	\$ 12	\$ 37	\$ 62

1. For the three and nine months ended September 30, 2017, selling, general and administrative expenses includes approximately \$7 million of other costs associated with Stelco's emergence from CCAA.

Q3 2018

SG&A expenses for the three months ended September 30, 2018 primarily includes the following: \$4 million in corporate and administrative employee salaries and benefits, \$4 million in ERP implementation expenses relating to the separation from USS and \$2 million in fees related to management services provided by an affiliate of Bedrock during the period. 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.

YTD 2018

SG&A expenses for the nine months ended September 30, 2018 primarily includes the following: \$14 million in ERP implementation expenses relating to the separation from USS, \$12 million in corporate and administrative employee salaries and benefits, \$4 million in Bedrock Industries B.V. management fees and \$3 million in professional, consulting and legal fees. During the same period of 2017, our SG&A expenses also included \$18 million in acquisition related costs associated with the purchase of the Company by Bedrock and a \$6 million settlement related to the cancellation of a customer contract.

Finance costs

(millions of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Remeasurement of employee benefit commitment ¹	\$ (2)	\$ —	\$ 159	\$ —
Accretion of employee benefit commitment	12	8	31	8
Interest on loans and borrowings	5	1	9	116
Foreign exchange (gain) loss	(2)	1	(1)	6
Accretion on financial lease obligation	—	1	1	1
Other	(1)	1	(1)	2
	\$ 12	\$ 12	\$ 198	\$ 133

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

Q3 2018

Finance costs for the quarter of \$12 million remained flat compared for the same period in 2017, due to the following; a \$4 million increase in interest on loans and borrowings, \$4 million higher accretion expense associated with our employee benefit commitment obligation, offset by \$3 million related to the gross impact period-over-period of foreign exchange translation on U.S. dollar denominated working capital, \$2 million remeasurement recovery on our employee benefit commitment due to a change in timing of estimated cash flows and future funding requirements, and \$3 million lower accretion on financial lease obligations and other interest costs.

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Interest on loans and borrowings increased \$4 million compared to the third quarter of 2017, primarily due to higher interest costs associated with Stelco's mortgage note issued during the second quarter of 2018 as consideration for the acquisition of the Lands from the Land Vehicle, discussed further in the 'Business Overview' section of this MD&A.

YTD 2018

Finance costs increased by \$65 million or 49%, from \$133 million in the first nine months of 2017 to \$198 million during 2018, primarily due to \$182 million of higher remeasurement and accretion expenses associated with our employee benefit commitment obligation, partly offset by a \$107 million decrease in interest on loans and borrowings mostly related to the extinguishment of \$1.8 billion of debt through the CCAA process and \$7 million related to the gross impact period-over-period of foreign exchange translation on U.S. dollar denominated working capital.

In connection with the Amended OPEB Funding Agreement (discussed further in the 'Business Overview' section of this MD&A), Stelco incurred a remeasurement charge of \$157 million related to the employee benefit commitment, derived as the difference between the estimated discounted cash flows from the Original OPEB Funding Agreement compared to those from the Amended OPEB Funding Agreement. The employee benefit commitment (including both the Original and Amended OPEB Funding Agreements) consists of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. Due to the nature of the underlying estimates, assumptions and its long-term nature, the employee benefit commitment is sensitive to changes in these estimates and assumptions. Estimates of expected cash flows are revisited at the end of each reporting period to determine the carrying amount of amortized cost. Refer to note 8 of the Consolidated Financial Statements for further details.

In addition, during March 2018, the Company paid a \$20 million advance contribution pursuant to the Original OPEB Funding Agreement, 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 employee benefit commitment, the Company recognized an increase of \$4 million to the liability with a corresponding increase in finance costs on the consolidated statement of income.

Finance and other income (loss)

(millions of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Loss on commodity-based swaps	\$ —	\$ —	\$ (10)	\$ —
Finance and other income	1	—	1	4
	\$ 1	\$ —	\$ (9)	4

For the first nine months of 2018, finance and other income (loss) decreased by \$13 million from income of \$4 million in 2017, to a loss of \$9 million for the period. The decrease was primarily due to a \$10 million realized loss from commodity-based swaps and lower other income of \$3 million mostly related to certain recoveries of insurance claims and property tax rebates recognized during the first quarter of 2017.

During the first quarter of 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. These swap contracts matured and settled during May 2018. The Company did not enter these contracts for trading or speculative purposes.

Restructuring and other costs

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 costs.

(millions of Canadian dollars)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Consulting and monitor costs ¹	\$ 1	\$ —	\$ 2	\$ 17
Legal costs ¹	—	1	1	12
Other ²	1	—	4	4
	\$ 2	\$ 1	\$ 7	33

1. Consulting and legal costs are expected to continue during 2018.

2. Other includes building related costs incurred by Stelco on behalf of the Land Vehicle.

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Review of Non-IFRS Measures

Adjusted net income

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

(millions of Canadian dollars, except where otherwise noted)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 123	\$ (13)	\$ 139	\$ 3,563
Add back/(Deduct):				
Remeasurement of employee benefit commitment ¹	(2)	—	159	—
Separation costs related to USS support services ²	5	1	15	21
Loss from commodity-based swaps	—	—	10	—
Restructuring and other costs ³	2	1	7	33
Property related idle costs included in cost of goods sold ⁴	3	—	3	—
Acquisition related costs ⁵	—	—	—	18
Provision on pension and other post-employment benefits ⁶	—	2	—	26
Gain related to emergence from CCAA ⁷	—	—	—	(3,665)
Adjusted net income (loss)	\$ 131	\$ (9)	\$ 333	\$ (4)

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 costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
4. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
5. Acquisition costs related to the purchase of Stelco Inc. by Bedrock.
6. Represents difference between total cash funding obligation for pensions and OPEBs.
7. Represents the gain from the implementation of the CCAA plan on June 30, 2017.

Q3 2018

Adjusted net income for the quarter was \$131 million compared to an adjusted net loss of \$9 million for Q3 2017 representing a gross increase of \$140 million which is primarily due to the following:

- \$138 million increase in gross profit (adjusted for higher property related idle costs included in cost of goods sold of \$3 million, partly offset by a lower provision on pension and other post-employment benefits of \$2 million); and
- \$4 million lower selling, general and administrative expenses (adjusted for higher ERP implementation costs of \$4 million); partly offset by
- \$2 million higher finance costs (adjusted for an increase in remeasurement recovery from the employee benefit commitment of \$2 million).

For discussion and analysis of our financial results, refer to 'Review of Quarterly Financial Results' section in this MD&A.

YTD 2018

Adjusted net income for the period was \$333 million compared to an adjusted net loss of \$4 million during 2017 representing a gross increase of \$337 million which is primarily due to the following:

- \$243 million increase in gross profit (adjusted for lower provision on pension and other post-employment benefits of \$26 million and a decrease for separation costs related to USS support services of \$3 million, partly offset by higher property related idle costs included in cost of goods sold of \$3 million);
- \$94 million lower finance costs (adjusted for an increase in remeasurement charges from the employee benefit commitment of \$159 million); and
- \$4 million lower selling, general and administrative expenses (adjusted for acquisition related costs of \$18 million and lower ERP implementation costs of \$3 million); partly offset by
- \$3 million decrease in finance and other income (adjusted for a loss from commodity-based swaps of \$10 million).

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 period.

For discussion and analysis of our financial results, refer to 'Review of Quarterly Financial Results' section in this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted EBITDA and Tariff Adjusted EBITDA

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

(millions of Canadian dollars, except where otherwise noted)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 123	\$ (13)	\$ 139	\$ 3,563
Add back/(Deduct):				
Finance costs	12	12	198	133
Depreciation	10	4	28	19
Separation costs related to USS support services ¹	5	1	15	21
Loss from commodity-based swaps	—	—	10	—
Restructuring and other costs ²	2	1	7	33
Property related idle costs included in cost of goods sold ³	3	—	3	—
Finance income	(1)	—	(1)	(1)
Provision on pension and other post-employment benefits ⁴	—	2	—	26
Acquisition related costs ⁵	—	—	—	18
Gain related to emergence from CCAA ⁶	—	—	—	(3,665)
Adjusted EBITDA	\$ 154	\$ 7	\$ 399	\$ 147
Add back: Tariff related costs ⁷	39	—	50	—
Tariff Adjusted EBITDA	\$ 193	\$ 7	\$ 449	\$ 147
Percentage of total revenue:				
Adjusted EBITDA	25%	2%	22%	13%
Tariff Adjusted EBITDA	31%	2%	25%	13%

1. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
2. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
3. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
4. Represents difference between total cash funding obligation for pensions and OPEBs.
5. Acquisition costs related to the purchase of Stelco Inc. by Bedrock.
6. Represents the gain from the implementation of the CCAA plan on June 30, 2017.
7. Includes tariff and tariff related costs connected with U.S. bound steel shipments.

Q3 2018

Adjusted EBITDA for the quarter was \$154 million compared to \$7 million for Q3 2017 representing an increase of \$147 million which is primarily due to the following:

- \$144 million increase in gross profit (adjusted for an increase in depreciation expense of \$6 million and higher property related idle costs included in cost of goods sold of \$3 million, partly offset by lower provision on pension and other post-employment benefits of \$2 million); and
- \$4 million lower selling, general and administrative expenses (adjusted for higher ERP implementation costs of \$4 million).

For discussion and analysis of our financial results, refer to 'Review of Quarterly Financial Results' section in this MD&A.

YTD 2018

Adjusted EBITDA for the period was \$399 million compared to \$147 million during 2017 representing an increase of \$252 million which is mainly due to the following:

- \$252 million increase in gross profit (adjusted for lower provision on pension and other post-employment benefits of \$26 million and a decrease for separation costs related to USS support services of \$3 million, partly offset by an increase in depreciation expense of \$9 million and higher property related idle costs included in cost of goods sold of \$3 million); and
- \$4 million lower selling, general and administrative expenses (adjusted for acquisition related costs of \$18 million and lower ERP implementation costs of \$3 million); partly offset by
- \$3 million decrease in finance and other income (adjusted for a loss from commodity-based swaps of \$10 million)

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 period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For discussion and analysis of our financial results, refer to 'Review of Quarterly Financial Results' section in this MD&A.

Other Non-IFRS Measures

Selling price per net ton

Q3 2018

Selling price per nt increased by \$187 per nt or 24%, from \$793 per nt in Q3 2017 to \$980 per nt in Q3 2018. The increase in the selling price per nt was due to a general improvement of the market price of steel. Our shipping volumes increased to 586 thousand nt in Q3 2018 from 411 thousand nt in Q3 2017 primarily due to higher hot-rolled and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 76% and 14%, respectively, of the total sales volume in Q3 2018, whereas the same period in 2017 was approximately 73% and 19% respectively.

YTD 2018

Selling price per nt increased by \$86 per nt or 11%, from \$794 per nt in the first nine months of 2017 to \$880 per nt during 2018. The increase in the selling price per nt was due to the same factors described above. Our shipping volumes increased to 1,947 thousand nt in 2018 from 1,411 thousand nt in 2017 primarily due to higher hot-rolled and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 78% and 13%, respectively, of the total sales volume in the first nine months of 2018, whereas the same period in 2017 was approximately 71% and 21% respectively.

Adjusted EBITDA per net ton

Q3 2018

Adjusted EBITDA per nt increased by \$246 per nt, from \$17 per nt in Q3 2017 to \$263 per nt in Q3 2018, as a result of an increase of Adjusted EBITDA of \$147 million, partly offset by increase of 175 thousand nt increase in shipping volumes.

YTD 2018

Adjusted EBITDA per nt increased by \$101 per nt or 97%, from \$104 per nt in the first nine months of 2017 to \$205 per nt in the same period of 2018, as a result of an increase of Adjusted EBITDA of \$252 million, partly offset by an increase in shipping volumes of 536 thousand nt.

Shipping Volume

Q3 2018

Shipping volume increased 175 thousand nt or 43%, from 411 thousand nt in Q3 2017 to 586 thousand nt in Q3 2018. Hot-rolled coil shipments increased 49% from 299 thousand nt in Q3 2017 to 446 thousand nt in Q3 2018. Coated shipments increased 5% from 78 thousand nt in Q3 2017 to 82 thousand nt in Q3 2018. Cold-rolled coil shipments increased 58% from 12 thousand nt in Q3 2017 to 19 thousand nt in Q3 2018. Other shipments (including non-prime coils) increased 77% from 22 thousand nt in Q3 2017 to 39 thousand nt in Q3 2018.

YTD 2018

Shipping volume increased 536 thousand nt or 38%, from 1.4 million nt in the first nine months 2017 to 1.9 million nt in the same period of 2018. Hot-rolled coil shipments increased 53% from 998 thousand nt in 2017 to 1.5 million nt in 2018. Coated shipments decreased 14% from 302 thousand nt in 2017 to 259 thousand nt in the same period of 2018. Cold-rolled coil shipments increased 56% from 43 thousand nt in 2017 to 67 thousand nt in 2018. Other shipments (including non-prime coils) increased 38% from 68 thousand nt in 2017 to 94 thousand nt in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of Balance Sheets

The following table provides selected balance sheet information as indicated:

(millions of Canadian dollars)			
As at		September 30, 2018	December 31, 2017
Cash and cash equivalents	\$	168	\$ 45
Trade and other receivables		182	203
Inventories		470	448
Property, plant and equipment		432	305
Total assets	\$	1,281	\$ 1,035
Trade and other payables		323	310
Other liabilities		48	67
Obligations to independent employee trusts		601	344
Total liabilities	\$	980	\$ 726
Total equity	\$	301	\$ 309

As reflected in the selected balance sheet information above between December 31, 2017 and September 30, 2018, the Company increased trade and other payables from \$310 million to \$323 million (an increase of \$13 million or 4%), reduced other liabilities from \$67 million to \$48 million (a reduction of \$19 million or 28%), increased total liabilities from \$726 million to \$980 million (an increase of \$254 million or 35%), and reduced total equity from \$309 million to \$301 million (a reduction of \$8 million or 3%).

Our inventory increased from \$448 million at December 31, 2017 to \$470 million at September 30, 2018, primarily due to an increase in raw material levels resulting from receipts of coal and iron ore during the period, and lower consumption of materials during September in connection with our planned hot-strip mill outage. Partly offsetting our raw material increase in inventory during the period were sales and shipments of steel and non-steel products.

During the first nine months of 2018, the Company received net proceeds of approximately \$38 million 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 September 30, 2018, amounts drawn under this arrangement had a carrying value of \$160 million compared to \$121 million as at December 31, 2017.

The obligations to independent employee trusts increased from \$344 million at December 31, 2017 to \$601 million at September 30, 2018 primarily due a \$144 million increase in the employee benefit commitment and a new mortgage payable of \$114 million in connection to the acquisition of the Lands. The increase in the employee benefit commitment is primarily due to a remeasurement charge of \$157 million recorded in finance costs for the period in connection with the Company entering into an Amended OPEB Funding Agreement. The Amended OPEB Funding Agreement reduced the Company's exposure to future variable funding requirements, and provided the OPEB trusts with an increased fixed funding commitment over a 25 year term. Refer to the 'Business Overview' and 'Review of Quarterly Financial Results - Finance Costs' sections in this MD&A for further details.

We expect our cashflow from operations to be favourably impacted in the short to medium term due to substantial tax attributes which, as at September 30, 2018, can shield pre-tax income of approximately \$876 million (or approximately \$220 million on an after tax basis) from taxation. These tax attributes consist of non-capital loss carry forwards of \$481 million (\$121 million after tax), undepreciated capital cost deductions (UCC) of \$359 million (\$90 million after tax) and scientific research and experimental development (SRED) deductions of \$36 million (\$9 million after tax), which are expected to reduce the amount of taxes otherwise payable by Stelco and form part of future deposits into the ELHTs. Refer to 'Commitments and Contingencies - 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)		Nine months ended September 30,	
		2018	2017
Cash and cash equivalents, beginning of period	\$	45	\$ 188
Cash provided by (used in):			
Operating activities		289	(105)
Investing activities		(52)	(32)
Financing activities		(114)	(29)
Cash and cash equivalents, end of period	\$	168	\$ 22

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash provided by Operating Activities

For the first nine months of 2018, cash provided by operating activities totaled \$289 million compared to cash used in operating activities of \$105 million for the same period of 2017. Cash provided by operating activities for the 2018 period benefited from higher gross profit due to increased steel prices and shipping volumes and the impact of working capital, from the timing of cash disbursements and receipts of inventory related items compared to December 31, 2017.

Cash used in Investing Activities

YTD 2018, cash used in investing activities totaled \$52 million compared to \$32 million for the same period in 2017. Cash used in investing activities for the 2018 period included capital expenditures of \$55 million related to normative and growth projects at our blast furnace, hot strip mill and other capital assets relating to operations. Partly offsetting our cash used for capital expenditures during the period, was a \$3 million decrease in restricted cash in connection with funds held by the monitor as part of the CCAA proceedings.

Cash used in Financing Activities

For the first nine months of 2018, cash used in financing activities totaled \$114 million which includes the net effect of the following: return of capital payment to Stelco Holdings Inc. of \$150 million, inventory monetization arrangement net proceeds of \$38 million; and asset-based lending facility draws and repayments of \$52 million and \$53 million respectively, 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 nine months 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.

During the first quarter of 2018, Stelco was impacted by a truck and driver shortage across North America which resulted in higher transportation costs for the Company during the period. In addition, winter weather conditions made certain shipping options impractical for the first three months of 2018. As a result, in order to support our current production levels and higher customer orders, the Company expanded its distribution capabilities by adding approximately 220 rail cars to its transportation fleet through leasing arrangements. These rail cars were mostly received and entered into service in the second quarter of 2018, and during the third quarter we've added another 160 rail cars to our transportation fleet. 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 30-60 nt of steel depending on the jurisdiction traveled. Furthermore, we have increased our shipping capacity through our LEW dock enhancement project which was completed in May 2018. Barges loaded from our LEW dock are typically capable of carrying between 8 to 12 thousand nt of steel and vessels up to 20 thousand nt of steel. These shipping enhancements contributed in reducing our inventory backlog from the first quarter, which in combination with our recent hot strip mill outage (discussed further below) and consistent market demand for our steel products, reduced our estimated delivery lead time from eight to ten weeks from the date of order in the first quarter to three to four weeks at the date of this MD&A.

We executed a number of strategic outages during 2018, including at our hot strip mill through the addition of hydraulic automatic gauge control on the first two finishing mill stands. The outages were intended to improve reliability and efficiency, and are in preparation for hot strip mill enhancements planned for the remainder of 2018 and 2019. In connection with our strategic capital expenditure program aimed at improving our product mix to focus on more advanced steel products, including AHSS and UHSS grades, we are planning to continue enhancing our production capabilities and controls over our hot rolled steel products.

During September 2018 and as planned, Stelco executed a three week strategic outage to upgrade our hot strip mill to provide better gauge control and increased rolling force, and enable Stelco to better participate in the AHSS, High Strength Low Alloy (HSLA), and value added coated markets. We also performed maintenance on our blast furnace, basic oxygen furnace (BOF), and caster in September.

In addition to upgrades at our hot strip mill, we continued to focus on other business strategies of asset optimization and expansion of our production capabilities through initiatives such as: utilizing excess capacity at our LEW hot strip mill and pickle lines and HW coke ovens, restarting HW temper mill and installing annealing furnaces, and upgrading finishing mill roll bearings at our hot strip mill. 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.

The Company remains committed to focus on maximizing profits, including regaining higher margin business, to the extent feasible under trade regulations, increasing our expansion into additional markets outside Canada with respect to hot-rolled, cold-rolled and coated coil sales, and assessing opportunities to introduce new products. Despite the recent tariffs introduced by the US administration, Stelco as a low cost advanced integrated steel producer in North America, with improved shipping and production capabilities, will continue to seek new opportunities in the domestic and international steel markets and expects to continue to maximize profitability and cash flows in the near term.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

that cash generated from operations, together with amounts available under our asset-based lending 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 September 30, 2018, the Company had a cash balance of \$168 million and \$299 million available under the asset-based lending facility;
- the inventory monetization arrangement continues to provide the Company liquidity on certain of its raw material purchases; and
- as at September 30, 2018, Holdings (on a non-consolidated basis) had a cash balance of \$179 million, a portion of which could be made available to the Company for general corporate purposes and working capital.

Credit Facility and Other Arrangements

Asset-Based Lending (ABL) Facility

In connection with Stelco's emergence from CCAA, the Company entered into an asset-based lending (ABL) agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of \$375 million.

In August 2018, the Company entered into an amended ABL agreement for which the terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) the facility's maturity date has been extended to August 16, 2023, ii) change of original financing rate to Canadian/US prime rate plus 0.25% - 0.75%, iii) change of original option to index the interest rate to CDOR/LIBOR plus a margin of 1.25% - 1.75%, and iv) change of original letter of credit fee to a range of 1.25% - 1.75%. In addition, the amended ABL facility agreement also includes other amendments which enhance Stelco's flexibility and reduce restrictions associated with Stelco's ability to declare and pay dividends to Holdings.

In the periods prior to these amendments, the interest rate on Canadian/US dollar denominated funds was the Canadian/US prime rate plus 1% - 1.5%, depending on the amount that had been drawn under the facility, and was payable monthly. The Company also had the option to index the interest rate to CDOR/LIBOR plus a margin of 2% - 2.5%, and could have elected this in the event that it resulted in a lower rate of interest on its draws under the revolver. The Company also could obtain letters of credit under the facility at a rate of 2% - 2.5%.

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 September 30, 2018, the available borrowing base was \$299 million. During the nine months ended September 30, 2018, the Company's borrowing and repayment activity on the ABL facility resulted in a nil outstanding balance as at September 30, 2018 and Stelco had letters of credit outstanding in the amount of \$36 million (December 31, 2017 - \$35 million).

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.

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 September 30, 2018, amounts advanced under this arrangement were \$160 million compared to \$121 million as at December 31, 2017.

Subsequent to period end, on October 31, 2018, Stelco entered into an amended inventory monetization arrangement for which terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) adjusted volume quantity limits of raw materials eligible to be financed through this arrangement, ii) change of the original financing rate to LIBOR plus a margin of 2.50%, and iii) the amended agreement has an option for Stelco to terminate the arrangement early on either July 31, 2019 or August 30, 2019. Amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on September 30, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Capital

The Company has authorized share capital including an unlimited number of common shares with no par value. As at September 30, 2018, the Company has 345 issued and outstanding common shares with a carrying value of \$2,175 million (December 31, 2017 - \$2,325 million).

Return of Capital

On July 31, 2018, the Company's Board of Directors approved a return of capital to Holdings in the amount of \$150 million, which was paid by the Company on August 13, 2018. The return of capital to Holdings was recorded as a reduction to the carrying value of common shares on Stelco's consolidated balance sheet.

Commitments and Contingencies

Employee Benefit Commitments

- The Company has funding commitments with certain pension and OPEB trusts. Stelco committed to pay up to a maximum of \$430 million to fund five main defined benefit pension plans previously sponsored by Stelco Inc. (Main Pension Plans).
- On June 5, 2018, the Company entered into an Amended OPEB Funding Agreement, replacing the Original OPEB Funding Agreement, and committed to fixed contributions of approximately \$494.5 million over twenty five 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, equipment and rail cars, with lease terms between one to 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. In connection with the Lands acquisition on June 5, 2018, the HW and LEW land leases were terminated and the associated rental payments were canceled. Refer to note 5 of the Consolidated Financial Statements for further details.

Finance Leases

As at September 30, 2018, Stelco has a finance lease obligation with a carrying value of \$7 million (December 31, 2017 - \$24 million), associated with certain equipment and buildings on its consolidated balance sheets. During the second quarter of 2018, Stelco acquired the Lands from the Land Vehicle resulting in the derecognition of the Company's building finance lease obligation of \$24 million. Refer to note 5 of the Consolidated Financial Statements for further details.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at September 30, 2018:

(millions of Canadian dollars)	Payments due by period			
	Total	2018 ³	2019 to 2022	Thereafter
Trade payables	\$ 162	\$ 162	\$ —	\$ —
Inventory monetization arrangement	160	160	—	—
Operating leases	9	2	7	—
Finance lease obligations	8	—	4	4
Purchase obligations - non-capital ¹	366	157	131	78
Purchase obligations - capital	58	10	48	—
Obligations to independent employee trusts ²	1,204	9	352	843
Total Contractual Obligations	\$ 1,967	\$ 500	\$ 542	\$ 925

¹ Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.

² Represents estimated undiscounted cashflows related to the obligations to independent employee trusts.

³ Amounts pertain to the remaining three 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. The Company has incurred expenses of \$2 million and \$4 million for the three and nine months ended September 30, 2018, respectively, in management services provided by Bedrock and its affiliated entities.

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, Executive Vice-President, and General Counsel & Corporate Secretary of the Company.

During the three and nine months ended September 30, 2018, Stelco recorded \$1 million and \$3 million, respectively (three and nine months ended September 30, 2017 - \$1 million and \$3 million, respectively) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)

As at and for the three months ended ¹

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial results								
Total revenue	\$ 619	\$ 711	\$ 482	\$ 452	\$ 336	\$ 427	\$ 386	\$ 312
Steel products	574	672	467	425	326	415	380	306
Non-steel products	45	39	15	27	10	12	6	6
Gross profit (loss)	149	175	68	69	12	65	46	(12)
Selling, general and administrative expenses	12	14	11	15	12	40	10	5
Net income (loss)	123	(12)	28	16	(13)	3,593	(17)	(83)
Adjusted net income (loss) ²	131	153	49	49	(9)	(3)	8	(47)
Adjusted EBITDA ²	154	175	70	69	7	76	64	20
Tariff Adjusted EBITDA ²	193	186	70	69	7	76	64	20
Financial position								
Total assets	1,281	1,317	946	1,035	850	854	n.a.	1,200
Total non-current liabilities	519	508	332	351	325	392	n.a.	1,036
Operating results								
Selling Price per nt (in dollars per nt) ²	980	898	762	718	793	828	762	661
Adjusted EBITDA per nt (in dollars per nt) ²	263	234	114	117	17	151	128	43
Tariff Adjusted EBITDA per nt (in dollars per nt) ²	329	249	114	117	17	151	128	43
Shipping volumes (in thousands of nt)	586	748	613	592	411	501	499	463
Hot-rolled	446	590	491	473	299	359	340	322
Coated	82	93	84	77	78	103	121	104
Cold-rolled	19	33	15	15	12	17	14	8
Other	39	32	23	27	22	22	24	29

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

Stelco's financial performance moderately declined in Q3 2018 over Q2 2018 primarily as a result of lower sales volume of steel products, partly offset by increased average steel selling prices and higher sales of non-steel products. Also factoring during Q3 2018 were higher costs associated with raw materials, tariffs and planned hot-strip mill outage related costs incurred during the period.

Revenue decreased 13% from \$711 million in Q2 2018 to \$619 million in Q3 2018. The decrease in revenue reflects a 22% decrease in steel shipping volumes from 748k nt in Q2 2018 to 586k nt in Q3 2018, partly offset by a 9% increase in average selling price which increased from \$898/nt in Q2 2018 to \$980/nt in Q3 2018 and higher non-steel sales of \$6 million mostly related to excess metallurgical coke products. We executed a number of strategic outages during the nine months of 2018, which were intended to improve reliability and efficiency of our production facilities, and are in preparation for hot strip mill enhancements planned for the second half of 2018 and 2019. In connection with preparing our hot-strip mill for a planned outage during September 2018, we experienced a general decline in our shipping volumes and lower production of steel products during the quarter. The upgrades completed during the quarter are expected to provide better gauge control and increased rolling force, and enable Stelco to better participate in the AHSS, High Strength Low Alloy (HSLA), and value added coated markets. We also performed outages in our blast furnace, BOF and caster in September.

Revenue increased 48% from \$482 million in Q1 2018 to \$711 million in Q2 2018. The increase in revenue reflects a 22% increase in steel selling volumes from 613k nt in Q1 2018 to 748k nt in Q2 2018, and an 18% increase in average selling price which increased from \$762/nt in Q1 2018 to \$898/nt in Q2 2018. Investments in logistics capabilities, including rail and barge shipping, significantly improved our capacity to ship products to our customers, and was an important driver in the Q2 2018 shipping volumes. In Q2 2018 non-steel revenue also increased \$24 million quarter over quarter primarily due to the sale of excess coke. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

With the exception of Q4 2016, the Company has realized gross profits during the 2017 and 2018 periods. Gross profits were primarily driven by generally higher sales volumes and selling prices per unit 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 unit for our steel products during the same 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 period. 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 first quarter of 2018. 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 North America, our shipping costs increased between \$4 million and \$5 million during the quarter, as compared to Q4 2017. For Q2 2018, Stelco continued to realize both increased shipping volumes, through improved logistic capabilities, and selling prices which led to the highest quarterly gross profit to date since Bedrock acquired the Company on June 30, 2017, which were partly offset by \$11 million of tariff related costs. Gross profit for Q3 2018 decreased compared to Q2 2018 primarily due to lower revenue from lower shipping volumes realized and higher costs associated with raw materials, tariffs and hot-strip mill outage related costs incurred during the period. In particular for Q3 2018, the Company incurred \$39 million of tariff related charges and approximately \$10 million of unabsorbed manufacturing variances and other outage related costs connected to the hot-strip mill outage during the period.

SG&A expenses generally increased during 2017 as the Company incurred costs associated with its separation from USS, in particular for Q2 2017 which includes \$17 million in cloud-based ERP implementation costs and \$18 million in acquisition related costs. During 2018, SG&A primarily consisted of ERP implementation, employee salary and benefit related costs, and management fees.

With the exception of Q3 2017 and Q2 2018, 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). During Q2 2018, the Company incurred a remeasurement charge of \$157 million related to the employee benefit commitment, derived as the difference between the estimated discounted cash flows from the Original OPEB Funding Agreement compared to those from the Amended OPEB Funding Agreement. Excluding the impact of this finance cost, the Company had net income of \$145 million in Q2 2018, primarily due to the same factors as described in gross profit above. Net income for Q3 2018 increased compared to Q2 2018 primarily due to lower finance costs (in particular a Q2 2018 remeasurement charge related to the employee benefit commitment described above) partly offset by a decrease in revenue from less shipping volumes realized and higher costs associated with raw materials, tariffs and planned hot-strip mill outage related costs incurred during the period.

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. Adjusted EBITDA improved significantly in Q2 2018 over Q1 2018, increasing 150% from \$70 million in Q1 to \$175 million in Q2, reflecting higher revenue and operating leverage, as discussed above, partly offset by approximately \$11 million of tariff related costs during the second quarter. A positive outcome from the Q2 2018 growth in selling volumes and a positive pricing environment was the 25% Adjusted EBITDA margin in the quarter, up from the 15% Adjusted EBITDA margin in Q1 2018. Adjusted EBITDA for Q3 2018 decreased compared to Q2 2018 primarily due to the same factors described for 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.

Changes 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and certain 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 introduced new requirements for the classification, measurement impairment of financial instruments as well as hedge accounting. The Company 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 statements of income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. In connection with Stelco's land and buildings acquisition from Legacy Lands Limited Partnership (the Land Vehicle) and concurrent termination of associated lease arrangements discussed further in note 5, the Company does not expect a significant impact to Stelco's Consolidated Financial Statements on adoption of this IFRS.

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 September 30, 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.

ERP implementation

On October 2, 2018, Stelco completed the initial phase of the conversion to a new ERP system and does not expect the ERP conversion to result in any significant changes in internal controls over financial reporting or the overall control environment for the remainder of 2018.

Management employed appropriate procedures to ensure internal controls were in place during and after the conversion. 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 which are available through the SEDAR website at www.sedar.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Information - Stelco Holdings Inc.

Executive Management

Alan Kestenbaum
Chief Executive Officer

Don Newman
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

David Cheney
Executive Vice-President

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

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

Michael W. Dees^{4,6}
Partner, Lindsay Goldberg

Jeffrey B. Bunder²
Partner and Chief Financial Officer, Lindsay
Goldberg

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

Brian Levitt^{2,3,6}
Chairman of the Board of Directors of the
Toronto-Dominion Bank

Peter Bowie¹
Corporate Director

Jacob Lew
Partner, Lindsay Goldberg

Indira Samarasekera⁵
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.

⁵ Chair of the Environmental, Health and Safety Committee.

⁶ Member of the Environmental, Health and Safety Committee.

Auditors

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

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