Consolidated Financial Statements

Stelco Inc.

December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Stelco Inc.

Opinion

We have audited the consolidated financial statements of Stelco Inc. (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity (deficiency) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work that we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is John J. Pryke

Hamilton, Canada
February 15, 2019

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

As at	Note	**December 31, 2018**	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	*6*	**$ 268**	$ 45
Restricted cash	*7*	**8**	12
Trade and other receivables	*8*	**252**	203
Inventories	*9*	**468**	448
Prepaid expenses	*10*	**27**	18
Total current assets		**$ 1,023**	$ 726
Non-current assets			
Property, plant and equipment, net	*11*	**465**	305
Investment in joint ventures	*12*	**5**	4
Total non-current assets		**$ 470**	$ 309
Total assets		**$ 1,493**	$ 1,035
Liabilities			
Current liabilities			
Trade and other payables	*13*	**$ 432**	$ 310
Other liabilities	*14*	**39**	33
Obligations to independent employee trusts	*16*	**103**	32
Total current liabilities		**$ 574**	$ 375
Non-current liabilities			
Provisions	*17*	**5**	5
Pension benefits	*25*	**2**	—
Other liabilities	*14*	**13**	34
Obligations to independent employee trusts	*16*	**488**	312
Total non-current liabilities		**$ 508**	$ 351
Total liabilities		**$ 1,082**	$ 726
Equity			
Common shares	*18*	**2,175**	2,325
Contributed surplus		**500**	500
Retained deficit		**(2,264)**	(2,516)
Total equity		**$ 411**	$ 309
Total liabilities and equity		**$ 1,493**	$ 1,035

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

On behalf of the Board of Directors

(signed) *Alan Kestenbaum*, Director

(signed) *Sujit Sanyal*, Director

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

Years ended December 31,	Note		**2018**		2017
Revenue from sale of goods	*19*	**$**	**2,460**	$	1,601
Cost of goods sold	*20*		**1,937**		1,409
Gross profit		**$**	**523**	$	192
Selling, general and administrative expenses	*21*		**52**		77
Operating income		**$**	**471**	$	115
Other income (loss) and (expenses)					
Finance costs	*22*		**(215)**		(154)
Finance and other income	*23*		**1**		5
Restructuring and other costs			**(8)**		(38)
Share of loss from joint ventures	*12*		**(2)**		(2)
Gain on emergence from CCAA	*32*		**—**		3,653
Income before income taxes		**$**	**247**	$	3,579
Income tax expense	*24*		**—**		—
Net income		**$**	**247**	$	3,579

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

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

Years ended December 31,	Note	2018	2017
Net income		**$ 247**	$ 3,579
Other comprehensive income (loss):			
Items that are not recycled or reclassified to income (loss):			
Remeasurement gain (loss) on pension benefit obligations, net of income tax	25	**2**	(53)
Remeasurement gain on defined benefit pension obligation of equity accounted investment	12	**3**	—
Other comprehensive income (loss), net of income taxes		**$ 5**	$ (53)
Comprehensive income, net of income taxes		**$ 252**	$ 3,526

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

STELCO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(In millions of Canadian dollars, except for number of shares)

	Note	Number of common shares		Common shares		Contributed surplus		Retained deficit		Total equity (deficiency)
Balance, December 31, 2016		345	$	2,325	$	430	$	(6,042)	$	(3,287)
Changes during the year:										
Net income		—		—		—		3,579		3,579
Other comprehensive loss		—		—		—		(53)		(53)
Total comprehensive income		—		—		—		3,526		3,526
Equity contribution from owners		—		—		70		—		70
Balance, December 31, 2017		345	$	2,325	$	500	$	(2,516)	$	309
Balance, January 1, 2018		345	$	2,325	$	500	$	(2,516)	$	309
Changes during the year:										
Net income		**—**		**—**		**—**		**247**		**247**
Other comprehensive income		**—**		**—**		**—**		**5**		**5**
Return of capital to Stelco Holdings Inc.	*18*	**—**		**(150)**		**—**		**—**		**(150)**
Balance, December 31, 2018		**345**	**$**	**2,175**	**$**	**500**	**$**	**(2,264)**	**$**	**411**

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

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

Years ended December 31,	Note	2018	2017
Operating activities			
Net income		**$ 247**	$ 3,579
Items not affecting cash:			
Depreciation		**44**	28
Share of loss from joint ventures		**2**	2
Provision for doubtful accounts (recovery)		**(2)**	1
Employee benefit commitment:			
Remeasurement costs		**144**	10
Accretion expense		**43**	17
Termination of lease related obligations	*23*	**(9)**	—
Gain on emergence from CCAA	*32*	**—**	(3,653)
Payments to creditors under CCAA		**—**	(237)
Change in non-cash working capital and other operating activities	*27*	**(80)**	69
Cash provided by (used in) operating activities		**$ 389**	$ (184)
Investing activities			
Capital expenditures on property, plant and equipment	*27*	**(101)**	(37)
Change in restricted cash		**4**	(3)
Cash used in investing activities		**$ (97)**	$ (40)
Financing activities			
Advances from asset-based lending facility, net of transaction costs		**79**	—
Repayment of asset-based lending facility		**(80)**	—
Repayment of mortgage principal		**(1)**	—
Proceeds from inventory monetization arrangement, net	*13*	**83**	121
Advances of long-term debt		**—**	210
Repayment of long-term debt		**—**	(320)
Proceeds from owner's contribution		**—**	70
Return of capital to Stelco Holdings Inc.	*18*	**(150)**	—
Cash provided by (used in) financing activities		**$ (69)**	$ 81
Net increase (decrease) in cash and cash equivalents		**223**	(143)
Cash and cash equivalents, beginning of year		**45**	188
Cash and cash equivalents, end of year		**$ 268**	$ 45
Cash flows provided by operating activities include:			
Interest paid		**13**	1
Interest received		**2**	1

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

CONSOLIDATED FINANCIAL STATEMENTS

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

1.	Corporate Information	2
2.	Statement of Compliance and Basis of Preparation	3
3.	Significant Accounting Policies	3
4	Critical Judgments, Estimates and Assumptions	8
5.	Stelco Algae Holdings Inc.	9
6.	Cash and Cash Equivalents	9
7.	Restricted Cash	9
8.	Trade and Other Receivables	9
9.	Inventories	10
10.	Prepaid Expenses	10
11.	Property, Plant and Equipment	10
12.	Investment in Joint Ventures	12
13.	Trade and Other Payables	12
14.	Other Liabilities	13
15.	Asset-Based Lending Facility	13
16.	Obligations to Independent Employee Trusts	14
17.	Provisions	16
18.	Share Capital	16
19.	Revenue from Sale of Goods	17
20.	Cost of Goods Sold	17
21.	Selling, General and Administrative Expenses	17
22.	Finance Costs	18
23.	Finance and Other Income (Loss)	18
24.	Income Taxes	18
25.	Pension and Other Post-Employment Benefits	21
26.	Risk Management	24
27.	Supplemental Cash Flow Information	26
28.	Fair Value of Financial Instruments	27
29.	Capital Management	27
30.	Commitments and Contingencies	28
31.	Related Party Transactions	29
32.	Emergence from CCAA	30

1. CORPORATE INFORMATION

Stelco Inc. (Stelco or the Company) is principally engaged in the production and sale of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America. Stelco is governed by the *Canada Business Corporations Act* (CBCA), with its head office located at 386 Wilcox Street, Hamilton, Ontario, Canada.

Stelco is a wholly owned subsidiary of Stelco Holdings Inc. (Stelco Holdings), which is incorporated under the CBCA. The common shares of Stelco Holdings are listed on the Toronto Stock Exchange (TSX) under the symbol STLC.

Bedrock Industries L.P. (Bedrock), which indirectly owns approximately 46.4% of the common shares of Stelco Holdings through Bedrock Industries B.V., is Stelco Holdings' largest minority shareholder. The principal limited partners of Bedrock are LG Bedrock Holdings LP (LG Bedrock), a Delaware limited partnership; and AK Bedrock LLC, a Delaware limited liability company wholly owned by Alan Kestenbaum. The General Partner of Bedrock is Bedrock Industries GP LLC, a Delaware limited liability company whose sole member is LG Bedrock. LG Bedrock's general partner is LG Bedrock Holdings GP LLC, a Delaware limited liability company.

CCAA history

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

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

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

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

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

Upon emergence from CCAA, on June 30, 2017, Bedrock indirectly acquired substantially all of Stelco's operating assets and business on a going concern basis through the acquisition of all of the outstanding shares of Stelco. On September 25, 2017, a wholly-owned subsidiary of Bedrock, Bedrock Industries B.V. formed a wholly owned subsidiary, Stelco Holdings, for the purposes of acquiring Stelco and completing a public offering of its common shares. On November 10, 2017, Stelco Holdings completed a public offering and also acquired all of the issued and outstanding shares of Stelco on this date from Bedrock Industries B.V. under a common control transaction, resulting in Stelco becoming a wholly owned subsidiary of Stelco Holdings. Further details of the emergence from CCAA can be found in note 32.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

a) Statement of compliance

Stelco's financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors of Stelco Holdings on February 15, 2019.

b) Basis of preparation

These Consolidated Financial Statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 28. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3. Certain comparative information has been reclassified to conform to the current year's presentation.

c) Principles of consolidation

These Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses, and gains or losses have been eliminated on consolidation.

Subsidiaries

Subsidiaries are consolidated where the Company has the ability to exercise control. Control of an investee is defined to exist when the Company is exposed to variable returns from the Company's involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following: power over the investee (existing rights that gives it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from the Company's involvement with the investee; and the ability to use its power over the investee to affect its returns.

The Company’s subsidiaries are:

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

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

*Joint ventur*es

Joint ventures are entities over which the Company has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by Stelco's share of the results of operations and changes in the net assets of the joint venture. The financial statements of Stelco's joint ventures are prepared for the same reporting period as the Company and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of Stelco.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (and any changes thereto) used in preparation of these Consolidated Financial Statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and other incentives.

Revenue from the sale of goods is recognized to the extent that it is probable that the economic benefits will flow to the Company, can be reliably measured, and 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.

Depending on the shipping terms, freight and other transportation costs billed to customers are recorded gross (within revenue and cost of goods sold), or net of freight costs paid to shipping providers. The Company is the principal in revenue arrangements, where Stelco has pricing latitude, and is also exposed to inventory and credit risks.

b) Foreign currency translation

These Consolidated Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of the Company, its subsidiaries and its joint ventures. Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, the Company translates foreign currency balances as follows:

- Monetary assets and liabilities are translated at the closing rate in effect as at the Consolidated Balance Sheet date; and
- Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Items measured at fair value are translated at the exchange rate in effect at the date the fair value was measured.

Differences arising on settlement or translation of monetary assets and liabilities are recognized in finance costs on the Consolidated Statements of Income. Non-monetary items that are carried at fair value are translated using the exchange rate prevailing when the fair value was determined and the related translation gains and losses are reported in net income or other comprehensive income (OCI).

c) Income taxes

The Company's current and deferred tax expense is recognized in the Consolidated Statements of Income, unless it relates to items recognized in correlation to the underlying transaction in either OCI or equity. Current tax expense is based on substantively enacted statutory tax rates and tax laws as at the Consolidated Balance Sheet date. Deferred tax is provided using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been substantively enacted as at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price at which the inventories can be realized in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of selling and delivery. Net realizable value is estimated using evidence available at the time, taking into account the purpose for which the inventory is held. Previous write-downs are reversed in the event the circumstances that previously caused inventories to be written down below cost no longer exist.

The cost of raw materials are determined using the weighted average cost method. Raw materials and certain spare parts are valued at cost, inclusive of freight, shipping, handling as well as any other costs incurred in bringing the inventories to their present location and condition.

The cost of semi-finished and finished products are determined on a first-in, first-out basis and include the purchase costs of raw materials and conversion costs such as direct labor and an allocation of fixed and variable production overheads. Costs incurred when production levels are abnormally low are capitalized as inventories based on normal capacity with the remaining costs incurred recorded within cost of goods sold in the Consolidated Statements of Income.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes all related costs directly attributable to the acquisition or construction of the asset. Except for land, property, plant and equipment is depreciated using the straight-line method over the useful lives of the related assets as presented in the table below.

Estimated useful lives of major asset categories	
Buildings	35 years
Machinery and equipment	5 - 40 years
Vehicles	4 - 15 years

Property, plant and equipment that consist of parts that have a cost that is significant in relation to the item of property, plant and equipment to which it relates are treated as separate components of an item of property, plant and equipment and depreciated on a straight-line basis during the estimated period of service, taking into account any residual value at the end of the period. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. In addition, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Major repairs and upgrades are recognized separately and depreciated over their useful lives, all other repair and maintenance costs are expensed as incurred.

f) Impairment of non-financial assets

The Company's non-financial assets (including property, plant and equipment) are reviewed for indicators of impairment at each Consolidated Balance Sheet date. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in net income for the period.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is reversed if there is an indication that there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Financial instruments

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, certain other liabilities, mortgage payable, 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, certain other liabilities, mortgage payable 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, mortgage payable (including the current portion of mortgage payable), 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.

h) Fair value measurement

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

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable, supported by little or no market activity.

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

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

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

i) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Consolidated Statements of Income net of any reimbursement.

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

j) Pension and other employee benefits

The Company sponsors multiple defined benefit pension plans, which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment healthcare benefits. The post-employment benefits plans are unfunded. The obligations and costs of providing benefits under the defined benefit plans are determined using the projected unit credit method.

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

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

k) Leases

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

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

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

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

Assets held under leases that are not classified as finance leases are classified as operating leases and are not recognized in the Company’s Consolidated Balance Sheets. Payments made under an operating lease are recognized in income on a straight-line basis over the term of the lease.

l) Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Chairman and Chief Executive Officer (CEO).

m) Changes in accounting policies

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

<u>IFRS 15 - Revenue from Contracts with Customers (IFRS 15)</u>

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and outlines two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption of this standard did not have an impact on the Consolidated Financial Statements.

<u>IFRS 9 - Financial instruments (IFRS 9)</u>

IFRS 9 introduced new requirements for the classification, measurement and 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 of this standard did not have an impact on the Consolidated Financial Statements.

<u>Weighted average method for raw material inventory cost measurement</u>

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

n) Accounting standards issued but not yet effective

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 11, 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 does not expect a significant impact to Stelco's Consolidated Financial Statements on adoption of this IFRS.

4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Consolidated Financial Statements requires management to make judgments, estimates and/or assumptions that affect the amounts reported. The key assumptions concerning the future and other key sources of estimation uncertainty at the Consolidated Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company.

a) Employee benefit commitment

This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 16.

b) Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and projected retirement age. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 25.

c) Allowance for doubtful accounts

Estimates are used in determining the allowance for doubtful accounts related to trade receivables. The estimates are based on management's best assessment of the ECL of the related receivable balance, which involves estimates around the cash flows that are expected to be received. Future collections of receivables that differ from management's current estimates would affect trade receivables and other operating expenses. Refer to note 8 for information about the allowance for doubtful accounts.

d) Impairment of non-financial assets

In the process of applying the Company's accounting policies, impairment has been identified as an area where judgments have been made that may have a significant effect on the amounts recognized in the Consolidated Financial Statements. Also, in assessing for impairment, judgment is required in determining the aggregation of the Company's assets into CGUs, which is based on economic and commercial influences as well as the interdependence of cash inflows of the Company's operating facilities. The Company has determined that its operations comprise of a single CGU.

The Company evaluates each asset or CGU at each Consolidated Balance Sheet date to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs.

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

e) Income taxes

The Company is subject to income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to note 24 for the carrying value of current and deferred income tax assets and liabilities.

5. STELCO ALGAE HOLDINGS INC.

During September 2018, Stelco Algae Holdings Inc. (Stelco Algae), a wholly owned subsidiary of Stelco, entered into a 'notice to proceed' agreement with Pond Technologies Inc. (Pond) to jointly develop an Algae Carbon Abatement Facility (the Project) at Stelco's Lake Erie Works (the Project Site). The Project includes the following; i) the manufacture and installation of a 45,000 litre bioreactor system at the Project Site; and ii) subject to verification of Project viability and the receipt of applicable regulatory and third-party approvals, the installation of a commercial scale bioreactor at the Project Site.

Prior to the 'notice to proceed' arrangement, in November 2017, Stelco Algae, Pond and the Ontario Centres for Excellence Inc. (OCE) entered into a Target GHG Industrial Demonstration Program Funding Agreement (OCEFA) pursuant to which the OCE will fund up to 50% of eligible Project costs to a maximum of $5 million.

Eligible expenses which are to be reimbursed through the OCEFA will be financed by Stelco Algae through a new promissory note arrangement with Pond entered into during September 2018. The promissory note is a non-interest bearing revolving loan facility with a maximum borrowing capacity of $2.5 million and a maturity date of September 25, 2019. This note bears interest at a rate of 15% per annum if any cash reimbursements of eligible expenses received by Stelco Algae are not repaid to Pond within 10 business days of receipt from the OCE.

At December 31, 2018, Stelco Algae received cash proceeds of approximately $1 million in relation to the promissory note with Pond, which is carried within other liabilities on Stelco's Consolidated Balance Sheet. Eligible expenses of approximately $2 million have been incurred to date in connection with the Project, for which $1 million is recorded in property, plant and equipment and $1 million was reimbursed by the OCE and subsequently repaid to Pond and applied against the promissory note.

6. CASH AND CASH EQUIVALENTS

As at	**December 31, 2018**	December 31, 2017
Cash at banks	**$ 268**	$ 10
Short-term deposits	**—**	35
Total cash and cash equivalents	**$ 268**	$ 45

Cash and cash equivalents comprises cash at banks and on hand, as well as short-term deposits with a period to maturity as of the date of acquisition of three months or less.

7. RESTRICTED CASH

Restricted cash represents cash and cash equivalents not readily available to the Company. In connection with the CCAA arrangement, restricted cash was required to be maintained to include financial assurances associated with environmental obligations held for the Ontario Ministry of the Environment, Conservation and Parks (MECP), and various other disbursements held by the Monitor. Changes in restricted cash are included within investing activities in the Consolidated Statements of Cash Flows.

8. TRADE AND OTHER RECEIVABLES

As at	**December 31, 2018**	December 31, 2017
Trade receivables	**$ 249**	$ 202
Other receivables	**3**	3
Allowance for doubtful accounts	**—**	(2)
Total trade and other receivables	**$ 252**	$ 203

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

Trade receivables are non-interest bearing and are generally on terms of 30 to 45 days. As at December 31, 2018 and 2017, the aging of trade receivables and other receivables is as follows:

				Past due but not impaired			
As at		Total	Current	< 30 days	30 - 60 days	61 - 90 days	>91 days
December 31, 2018	**$**	**252**	**222**	**24**	**6**	**—**	**—**
December 31, 2017	$	203	201	—	—	—	2

In order to minimize the credit risk associated with trade and other receivables, the Company performs regular credit reviews for all customers with significant credit limits. Trade and other receivables are analyzed on a case by case basis taking into account a customer's past credit history as well as its current ability to pay and uncollectible amounts are recorded as an allowance for doubtful accounts. Refer to note 26 for further details of Stelco's credit risk management.

9. INVENTORIES

As at		**December 31, 2018**		December 31, 2017
Raw materials	**$**	**321**	$	231
Semi-finished products		**101**		163
Finished products		**33**		36
Spare parts		**13**		18
Total inventories	**$**	**468**	$	448

The Company did not recognize any write-down of inventory costs during the year ended December 31, 2018 and 2017. Refer to note 20 for the cost of inventories recognized within cost of goods sold.

10. PREPAID EXPENSES

As at		**December 31, 2018**		December 31, 2017
Advance payments to vendors	**$**	**23**	$	16
Prepaid insurance		**3**		2
Other		**1**		—
Total prepaid expenses	**$**	**27**	$	18

11. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
As at January 1, 2017	$ 77	$ 25	$ 332	$ 7	$ 10	$ 8	$ 459
Transfers	—	—	22	1	—	(23)	—
Additions	—	—	7	(3)	22	29	55
Disposals	(77)	(25)	(1)	—	—	—	(103)
As at December 31, 2017	$ —	$ —	$ 360	$ 5	$ 32	$ 14	$ 411
Transfers	—	1	32	4	—	(37)	—
Additions	93	4	12	—	8	87	204
Acquisition of assets under finance lease	—	22	—	—	(22)	—	—
As at December 31, 2018	**$ 93**	**$ 27**	**$ 404**	**$ 9**	**$ 18**	**$ 64**	**$ 615**

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

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
As at January 1, 2017	$ —	$ 3	$ 69	$ 1	$ 8	$ —	$ 81
Depreciation	—	—	26	—	2	—	28
Disposals	—	(3)	—	—	—	—	(3)
As at December 31, 2017	$ —	$ —	$ 95	$ 1	$ 10	$ —	$ 106
Depreciation	—	—	41	1	2	—	44
Acquisition of assets under finance lease	—	1	—	—	(1)	—	—
As at December 31, 2018	**$ —**	**$ 1**	**$ 136**	**$ 2**	**$ 11**	**$ —**	**$ 150**
Net book value							
As at December 31, 2018	**$ 93**	**$ 26**	**$ 268**	**$ 7**	**$ 7**	**$ 64**	**$ 465**
As at December 31, 2017	$ —	$ —	$ 265	$ 4	$ 22	$ 14	$ 305

Acquisition of Land and Buildings

On June 5, 2018, Stelco acquired the land and buildings beneficially owned by the Land Vehicle on which Stelco conducts its operations in Hamilton and Nanticoke, Ontario, including lands in Hamilton that contain the Hamilton Works blast furnace and cast houses, as well as developable lands and port facilities (collectively, the Lands). The total purchase price of the Lands was approximately $114 million and was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle.

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', previously held under a finance lease, to be reclassified and recorded as wholly-owned buildings, with a carrying value of $21 million. Lease related obligations of $30 million, consisting of building and land leases of $24 million and $6 million respectively were derecognized concurrent with the Lands acquisition, resulting in Stelco recording a $6 million straight-line rent land lease adjustment and $3 million building finance lease recovery within other income on the Consolidated Statement of Income for the year ended December 31, 2018. The total purchase consideration of $114 million consisted of land and building costs of $89 million and $25 million, respectively, and excluded $4 million of transaction costs.

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) submitted to the MECP, 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 response 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 in the event that the future use of the Lands requires Stelco to incur costs in connection with these waste materials.

Furthermore, in connection with the acquisition of the Lands, the Company continues to receive the benefit of the environmental release in respect of the Lands that was granted by the MECP on closing of Stelco's CCAA reorganization on June 30, 2017.

Assets under finance leases

Included in property, plant and equipment are certain buildings, infrastructure and equipment acquired under finance lease arrangements. As at December 31, 2018, the net carrying amounts of these assets under finance leases was $7 million (December 31, 2017 - $22 million).

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

12. INVESTMENT IN JOINT VENTURES

Stelco has 50% equity interests in joint ventures with Baycoat Limited Partnership (metal coating services) and D.C. Chrome Limited (chrome plating services), which are accounted for using the equity method in the Consolidated Financial Statements. Summarized financial information of the joint ventures are set out below.

Assets and liabilities of the joint ventures

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

As at	**December 31, 2018**	December 31, 2017
Current assets	**$ 27**	$ 34
Non-current assets	**6**	6
Current liabilities	**(4)**	(9)
Non-current liabilities	**(19)**	(20)

Statement of loss of the joint ventures

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

As at	**December 31, 2018**	December 31, 2017
Net revenue	**$ 76**	$ 73
Depreciation	**(2)**	(2)
Net loss	**(4)**	(4)

Equity investment in the joint ventures

As at	**December 31, 2018**	December 31, 2017
Balance, beginning of year	**$ 4**	$ 6
Share of net loss	**(2)**	(2)
Remeasurement gain on defined benefit pension obligations within OCI	**3**	—
Balance, end of year	**$ 5**	$ 4

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

13. TRADE AND OTHER PAYABLES

As at	**December 31, 2018**	December 31, 2017
Trade payables	**$ 215**	$ 183
Inventory monetization arrangement	**216**	121
Payables to related parties[1]	**1**	4
Other payables	**—**	2
Total trade and other payables	**$ 432**	$ 310

1 Refer to note 31 for further details.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less.

Inventory monetization arrangement

On December 11, 2017, Stelco entered into an inventory monetization financing arrangement which is subject to a financing rate of LIBOR plus a margin of 3.5%. Under the terms of the arrangement, Stelco receives cash proceeds (in USD) based upon an agreed pricing formula and the quantity of certain raw materials on-site, less a required cash margin. Currently, iron ore and metallurgical coal inventory are monetized under the arrangement up to specified maximum volumes. Upon consumption of the raw materials, amounts monetized under the arrangement are repaid to the counterparty.

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

In November 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 on the earlier of: (i) the early termination of the facility; and (ii) the expiry of the facility on September 30, 2019. As of December 31, 2018, US$158 million (December 31, 2017 - US$97 million) was drawn on the facility.

This financing arrangement is secured by inventory with a carrying value of $225 million serving as collateral. The weighted average finance rate for the inventory monetization arrangement for the year ended December 31, 2018 was 5.36% (December 31, 2017 - 4.84%) and is recorded in finance costs on the Consolidated Statements of Income.

14. OTHER LIABILITIES

As at		**December 31, 2018**		December 31, 2017
Salaries and benefits payable	**$**	**33**	$	31
Finance lease obligations		**8**		24
Post-employment benefits		**7**		8
Other liabilities		**2**		3
Interest payable		**2**		1
Total other liabilities	**$**	**52**	$	67
Total current other liabilities	**$**	**39**	$	33
Total non-current other liabilities	**$**	**13**	$	34

Finance lease obligations

As at December 31, 2018, Stelco has a finance lease obligation with a carrying value of $8 million (December 31, 2017 - $24 million, includes buildings and equipment leases), associated with certain equipment on the Company's Consolidated Balance Sheets. During June 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 11 for further details.

15. ASSET-BASED LENDING 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. 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 December 31, 2018, the available borrowing base was $303 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 Stelco 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 Company's borrowing and repayment activity on the ABL facility during the year resulted in a nil outstanding balance as at December 31, 2018. Stelco also had letters of credit outstanding as at December 31, 2018 of $41 million (December 31, 2017 - $35 million). The weighted average finance rate on amounts drawn under this facility was 5.38% for 2018 (December 31, 2017 - 4.66%) and the Company was in compliance with the financial covenants at December 31, 2018.

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

16. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**December 31, 2018**		December 31, 2017
Employee benefit commitment	**$**	**478**	$	344
Mortgage payable		**113**		—
Obligations to independent employee trusts		**591**		344
Current		**103**		32
Non-current	**$**	**488**	$	312

The Company's obligations to independent employee trusts consists of multiple arrangements that contain future funding requirements to certain pension and independent employee health and life trusts. These funding requirements include both fixed scheduled payments and estimated variable contributions based on Stelco's future operating performance and the utilization of specific tax attributes. The obligations to independent employee trusts includes both the employee benefit commitment, entered into as part of Stelco's CCAA reorganization on June 30, 2017, as amended, and a new mortgage in connection with the acquisition of the Lands described further below.

Employee benefit commitment

On June 5, 2018, Stelco entered into an amended employee benefit commitment (amended EBC) agreement that replaced Stelco's previous funding obligations under the original June 30, 2017 agreement. The amended EBC reduces the Company's exposure to future variable funding requirements primarily through limiting free cash flow participation and provides the independent employee life and health (OPEB) trusts established as part of Stelco's CCAA reorganization, with an increased fixed funding commitment over a 25 year term. With the exception of the aforementioned amendments to the employee benefit commitment, the nature of the underlying assumptions used to derive the employee benefit commitment have remained the same to those of the original agreement.

The employee benefit commitment was initially recorded at its fair value of $329 million at June 30, 2017, which is measured based on unobservable Level 3 inputs, and subsequently has been accounted for at amortized cost using the effective interest method using an effective interest rate of 11.04%. The amended EBC was recorded at its estimated fair value of $491 million, which was measured based on a discounted cash flow analysis of expected cash flows to be paid in future periods to the pension and OPEB trusts. These cash flows consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return for the Company. Subsequent to its initial recognition, the amended EBC is carried at amortized cost using the effective interest method at an effective interest rate of 9.72%. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is sensitive to changes in these assumptions. Estimates of expected future cash flows are revisited at the end of each reporting period to determine the carrying amount of amortized cost.

In accordance with IFRS, modification of a financial liability terms that results in accounting for the original arrangement as an extinguishment of a financial liability, requires any difference between the carrying amount of the original financial liability and the amended arrangement obligation to be recognized in the Consolidated Statements of Income in the period of modification. During June 2018, in connection with the initial recognition of the amended EBC, Stelco incurred a remeasurement charge of $157 million recorded within finance costs on the Consolidated Statements of Income.

In addition, during March 2018, the Company paid a $20 million advance contribution to the original employee benefit commitment (original EBC), 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 original EBC, the Company recognized an increase of $4 million to the liability with a corresponding increase in finance costs on the Consolidated Statements of Income.

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

Future employee benefit commitment payments are estimated as follows:

As at		December 31, 2018
2019	$	**101**
2020		**79**
2021		**63**
2022		**52**
2023		**37**
Thereafter		**595**
Total estimated employee benefit commitment payments	$	**927**
Less: amounts representing future finance costs		**(449)**
Present value of employee benefit commitment	$	**478**

Mortgage payable

On June 5, 2018, Stelco completed the acquisition of Lands (previously owned by Stelco prior to emergence from CCCA protection) back from the Land Vehicle. The Lands were acquired for approximately $114 million which was financed by Stelco through a 25-year, 8% per annum mortgage payable as purchase consideration to the Land Vehicle, which is payable through quarterly fixed payments of approximately $2.7 million over the term. In connection with the acquisition of Lands from the Land Vehicle, the properties acquired serve as security for Stelco's mortgage payable and certain obligations in respect of the amended employee benefit commitment.

Future payments of the Company's mortgage payable by year are as follows:

As at		December 31, 2018
2019	$	**11**
2020		**11**
2021		**11**
2022		**11**
2023		**11**
Thereafter		**204**
Total future mortgage payments	$	**259**
Less: amounts representing future finance costs		**(146)**
Carrying amount of mortgage payable	$	**113**

17. PROVISIONS

		Environmental remediation
As at January 1, 2018	**$**	**5**
Additions		**—**
Settlements		**—**
As at December 31, 2018	**$**	**5**
Current	**$**	**—**
Non-current	**$**	**5**
As at January 1, 2017	$	5
Additions		1
Settlements		(1)
As at December 31, 2017	$	5
Current	$	—
Non-current	$	5

Environmental remediation

A provision has been recognized for environmental remediation costs associated with waste generated from steel making operations after June 30, 2017. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the MECP.

The Company assesses its provision for environmental rehabilitation on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, and the impact of changes in discount rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

18 . SHARE CAPITAL

The following common shares are outstanding at each respective date:

As at		**December 31, 2018**		December 31, 2017
Common shares				
Outstanding (in thousands)		**345**		345
Carrying amount	**$**	**2,175**	$	2,325

Return of capital

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

On February 15, 2019, Stelco's Board of Directors approved a return of capital to Stelco Holdings in the amount of $100 million, payable on March 18, 2019.

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

19. REVENUE FROM SALE OF GOODS

Revenue from steel and non-steel product sales are as follows:

Years ended December 31,		2018		2017
Steel products	**$**	**2,330**	$	1,546
Non-steel products		**130**		55
Total	**$**	**2,460**	$	1,601

Revenue by geographical location is comprised of:

Years ended December 31,		2018		2017
Canada	**$**	**1,862**	$	1,362
United States		**598**		239
Total	**$**	**2,460**	$	1,601

20. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Years ended December 31,		2018		2017
Cost of inventories:				
Steel products	**$**	**1,732**	$	1,250
Non-steel products		**77**		39
Fixed overhead and other costs [1]		**84**		92
Depreciation		**44**		28
Total	**$**	**1,937**	$	1,409

1 Primarily includes corporate and administrative employee salaries and benefits, certain employees' pension and other benefits, shared service agreement fees and other indirect costs associated with the production of inventory.

For the year ended December 31, 2018, cost of goods sold includes the impact of a $6 million inventory revaluation adjustment recorded in the first quarter of 2018 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 ended March 31, 2018.

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Years ended December 31,		2018		2017
Enterprise resource planning system [1]	**$**	**18**	$	22
Employee (active) salary and benefits expense		**17**		11
Management fees [2]		**7**		3
Professional, consulting and legal fees		**5**		6
Acquisition related costs		**—**		18
Settlement of a contract cancellation		**—**		6
Employee (inactive) benefits expense		**—**		4
Shared service arrangement		**—**		2
Other [3]		**5**		5
Total	**$**	**52**	$	77

1 Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.
2 Refer to note 31 for further details.
3 Includes corporate and travel related expenses.

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

22. FINANCE COSTS

Finance costs are comprised of:

Years ended December 31,	2018	2017
Remeasurement of employee benefit commitment [1]	$ 144	$ 10
Accretion of employee benefit commitment [1]	43	17
Interest on loans and borrowings	14	117
Accretion expense related to finance lease obligations	1	2
Foreign exchange loss	14	4
Other	(1)	4
Total	$ 215	$ 154

1 Refer to note 16 for further details.

23. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) is comprised of:

Years ended December 31,	2018	2017
Loss on commodity-based swaps	$ (10)	$ —
Finance income	2	1
Other income	9	4
Total	$ 1	$ 5

Commodity-based swaps

During March 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, with the Company realizing a loss of $10 million. The Company did not enter these contracts for trading or speculative purposes.

Other income

Other income includes $9 million associated with the termination of lease related obligations in connection with the Lands acquisition discussed further in note 11. The lease termination related income consisted of a $6 million straight-line rent land lease recovery previously recognized and expensed within cost of goods sold, and $3 million in building finance lease depreciation and accretion recovery.

For the year ended December 31, 2017, other income includes certain recoveries related to insurance claims and property tax rebates.

24. INCOME TAXES

The major components of income tax expense are as follows:

Years ended December 31,	2018	2017
Deferred income tax:		
Origination and reversal of temporary differences	$ 62	$ 770
Previously unrecognized deferred tax assets	(62)	(770)
Income tax expense	$ —	$ —

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

Reconciliation of Effective Tax Rate:

Years ended December 31,	**2018**	2017
Income before income taxes	**$ 247**	$ 3,579
Combined Canadian federal and provincial income tax rate	**25%**	25%
Income tax expense based on statutory rate	**62**	895
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:		
Permanent differences:		
Debt forgiveness	**—**	481
Restructuring gain	**—**	(707)
Settlement of debt	**—**	79
Non-deductible interest	**—**	42
Environmental	**—**	(20)
Other	**(2)**	—
Unrecognized deferred tax assets	**(60)**	—
Write down or reversal of deferred tax assets	**—**	(770)
Income tax expense	**$ —**	$ —

Deferred tax

Deferred tax relates to the following:

As at	**December 31, 2018**	December 31, 2017
Non-capital and capital loss carry-forwards	**$ 93**	$ 208
Employee benefit commitment	**122**	88
Deductible SRED expenditures	**9**	9
Plant and equipment	**10**	2
Provisions	**—**	2
Impairment provision of investment in subsidiaries	**2**	2
Land lease	**—**	1
Deferred tax assets not recognized	**(236)**	(312)
Deferred tax asset	**$ —**	$ —
Deferred tax liability	**$ —**	$ —
Net deferred tax asset	**$ —**	$ —

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

Reconciliation of movements in the deferred tax asset as at:

As at	**December 31, 2018**	Movement	December 31, 2017	Movement	December 31, 2016
Non-capital and capital loss carry-forwards	**$ 93**	$ (115)	$ 208	$ (599)	$ 807
Employee benefit commitment	**122**	34	88	88	—
Deductible SRED expenditures	**9**	—	9	—	9
Plant and equipment	**10**	8	2	(186)	188
Provisions	**—**	(2)	2	—	2
Impairment provision of investment in subsidiaries	**2**	—	2	—	2
Land lease	**—**	(1)	1	1	—
Pension and other post-employment benefits	**—**	—	—	(293)	293
Compound interest	**—**	—	—	(40)	40
Province of Ontario note	**—**	—	—	(28)	28
Unrealized foreign exchange	**—**	—	—	(8)	8
Land	**—**	—	—	(4)	4
Deferred tax assets not recognized	**(236)**	76	(312)	1,063	(1,375)
Deferred tax asset	$ —	$ —	$ —	$ (6)	$ 6
Investment property	—	—	—	5	(5)
Other	—	—	—	1	(1)
Deferred tax liability	$ —	$ —	$ —	$ 6	$ (6)
Net deferred tax asset	**$ —**	$ —	$ —	$ —	$ —

Non-capital loss carry forwards:

As at	**December 31, 2018**	December 31, 2017
2032	**$ —**	$ 30
2033	**—**	400
2034	**136**	164
2035	**238**	238
Total	**$ 374**	$ 832

Subsequent to emergence from CCAA, unrecognized capital losses of $29 million expired concurrent with the acquisition of control of Stelco on June 30, 2017.

The benefit of investment tax credits of $nil (December 31, 2017 - $nil) have not been accrued in the financial statements of the Company. The use of the available credits is dependent on the realization of sufficient future taxable profit within the carry-forward period. On acquisition of the Company, all available credits were eliminated pursuant to the Plan of Arrangement.

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

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

25. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

As at December 31,		**2018**		2017
Pension plans	**$**	**(2)**	$	—
Other non-pension employee benefit plans		**(7)**		(8)
Total	**$**	**(9)**	$	(8)

The other post-employment benefits is recorded within other liabilities (note 14).

Establishment of new defined benefit pension plans

Effective January 1, 2018, new pension plans were established for certain active hourly employees of Stelco on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of the CCAA Plan. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 million annually and decline to $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements.

Actuarial valuation reports were prepared for each plan as at December 31, 2018.

Other non-pension employee benefit plans

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

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

The company sponsors an unfunded compensated absence plan that provides non-pension benefits and is the administrator of the plan. Funded Status and other post-employment benefit reports for the compensated absences Plan (Hamilton and Lake Erie) are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate. On June 30, 2017, the Compensated Absences Plan was expanded to include eligible hourly employees at Lake Erie, and has been reinstated upon emergence from CCAA.

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

Expected contributions to the compensated absences plan in the next fiscal year are $1 million (December 31, 2017 - $1 million).

Former defined benefit pension plans

On June 30, 2017, in connection with the emergence of the Company from protection under the CCAA, Stelco's pension and OPEB liabilities were canceled and discharged. Until June 30, 2017, the Company sponsored nine Ontario registered funded defined benefit pension plans for eligible employees at various locations for former U.S. Steel Canada Inc. (USSC) employees which included:

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

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

9. Welland Salary Plan

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

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

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

Actuarial valuation reports were prepared for each plan as at June 30, 2017.

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

In accordance with the Plan, Stelco's funding obligation in respect of the Lake Erie Bargaining Unit Plan, the Lake Erie Salaried Plan, the Hamilton Bargaining Unit Plan, the Hamilton Salaried Plan and the Pickle Line Plan were capped with prescribed funding obligations (see note 32).

Net benefit expense

The components of the Company's benefit expense recognized in net income include:

Years ended December 31,		**2018**		2017
Pension plans				
Service costs	**$**	**7**	$	6
Settlement		**—**		(1)
Finance cost		**—**		6
	$	**7**	$	11
Other non-pension employee benefit plans				
Service costs	**$**	**1**	$	4
Past service costs		**—**		8
Finance cost		**—**		17
	$	**1**	$	29
Net benefit expense	**$**	**8**	$	40

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

The components of the Company's benefit expense recognized in other comprehensive income include:

Years ended December 31,		**2018**		2017
Pension plans				
Effect of experience adjustments	**$**	**1**	$	—
Actuarial gain due to assets experience		**—**		113
Changes in economic assumptions		**—**		(122)
	$	**1**	$	(9)
Other non-pension employee benefit plans				
Effect of experience adjustments	**$**	**1**	$	—
Changes in economic assumptions		**—**		(44)
	$	**1**	$	(44)
Remeasurement effects recognized in OCI	**$**	**2**	$	(53)

Reconciliation of defined benefit obligations

	Pension plans				Other non-pension employee benefit plans			
As at December 31,		**2018**		2017		**2018**		2017
Beginning of year	**$**	**—**	$	(3,423)	**$**	**(8)**	$	(913)
Interest cost		**—**		(60)		**—**		(17)
Current service costs		**(7)**		(6)		**(1)**		(4)
Past service costs		**—**		—		**—**		(8)
Settlement		**—**		1		**—**		—
Benefits paid		**—**		186		**1**		3
Actuarial gain (loss)		**1**		(122)		**1**		(44)
Wind-up on emergence from CCAA		**—**		3,424		**—**		975
End of year	**$**	**(6)**	$	—	**$**	**(7)**	$	(8)

Reconciliation of fair value of plan assets

	Pension plans				Other non-pension employee benefit plans			
As at December 31,		**2018**		2017		**2018**		2017
Beginning of year	**$**	**—**	$	3,026	**$**	**—**	$	—
Actuarial gain		**—**		113		**—**		—
Expected return on assets		**—**		54		**—**		—
Employer contributions		**4**		5		**1**		3
Benefits paid		**—**		(154)		**(1)**		(3)
Settlement		**—**		(32)		**—**		—
Wind-up on emergence from CCAA		**—**		(3,012)		**—**		—
End of year	**$**	**4**	$	—	**$**	**—**	$	—
Defined benefit obligation, net	**$**	**(2)**	$	—	**$**	**(7)**	$	(8)

Categories of plan assets:

As at December 31, 2018, approximately 48% of the fair value of all pension plan assets was invested in equities, 42% in fixed income securities, and 10% in cash and cash equivalents. The plan assets are not invested in derivative or real estate assets.

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

Key assumptions

The following key assumptions were used to determine the benefit obligations at December 31, 2018 and 2017:

	Pension plans		Other non-pension employee benefit plans	
As at December 31,	**2018**	2017	**2018**	2017
Discount rate	**3.9%**	—	**3.7%**	3.3%
Future salary increases	**3%**	—	**3%**	2.1%
Mortality	**CPM2014 Private table, Scale CPM-B with size adjustments**	—	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments
Average duration of the obligation	**20 years**	—	**8 years**	8 years

Sensitivity analysis - obligation

A 0.05% increase or decrease in discount rate or a 0.5% increase or decrease in future salary increases would result in a $nil impact on the defined benefit obligations of the pension plans and the other non-pension employee benefit plans.

26. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including price risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and risks related to pensions. For a discussion of other risks the Company is exposed to, refer to the heading *"Risk Factors"* in the Annual Information Form of Stelco Holdings dated February 15, 2019, and filed under Stelco Holdings' SEDAR profile at www.sedar.com. The Company's senior management oversees the management of these risks, as summarized below.

Price risk

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

Foreign currency risk

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

The Company monitors its cash inflows and outflows denominated in foreign currency and plans the conversion of funds into foreign currency to support business needs. The Company may use derivative financial instruments to manage exposure to changes in foreign currency exchange rates.

As at December 31, 2018, a 1% strengthening in the Canadian dollar would have resulted in a $3 million increase in pre-tax income (December 31, 2017 - $2 million increase) from translating foreign currency denominated monetary assets and liabilities balances, assuming all other variables remain unchanged, and a 1% weakening in the Canadian dollar would have resulted in a $3 million decrease in pre-tax income (December 31, 2017 - $2 million decrease).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates arises from long-term debt obligations issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. A 1% increase or decrease in interest rates would not have resulted in a significant impact on pre-tax income due to either the limited volume or duration of borrowings under the Company's ABL and inventory monetization arrangement.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Company has a policy of only dealing with creditworthy counterparties. To help mitigate this risk, the Company conducts regular credit evaluations and may purchase credit insurance for international customers.

Trade receivables

Customer credit risk is managed by the Company based on an established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating process and individual credit limits are defined in accordance with this assessment.

As at December 31, 2018, six of the Company's customers made up 62% of the total trade accounts receivable. The Company's credit exposure to these customers was $154 million (December 31, 2017 - six customers at $133 million or 65% of total trade accounts receivable).

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. Trade receivables together with the associated allowance, are written off when there is no realistic prospect of future recovery.

Concentration of credit

The Company is exposed to credit risk in the event of non-payment by customers, principally within the container, construction, automotive, and steel service centre industries. Changes in these industries may significantly affect the Company's financial performance and management's estimates of allowance for doubtful accounts. The Company mitigates its exposure to credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, credit insurance, prepayments, guarantees or other collateral.

Liquidity risk

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

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

As at December 31, 2018, all of the financial liabilities of the Company, with the exception of the obligations to independent employee trusts and finance lease obligations, were due within 12 months.

Pensions - defined benefit plans

All defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk and market risk. Longevity risk is the risk that changes in life expectancy of pensioners will affect the expected payout by the applicable plan. Market risk is the risk that changes in market prices will affect the fair value of future cash flows of a financial instrument. Interest rate risk, as discussed above, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk specific to the defined benefit plans exists because the value of the applicable plan's assets is affected by short-term changes in nominal and real interest rates. The value of the applicable plan's commuted values payable is affected by changes in interest rates for long-term government bonds. Market risk is composed of currency risk, interest rate risk and other market price risk.

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

27. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years ended December 31,	**2018**	2017
Changes in non-cash working capital:		
Trade and other receivables	**$ (47)**	$ (66)
Inventories	**(17)**	(111)
Prepaid expenses	**(8)**	29
Trade and other payables	**23**	81
Other liabilities	**6**	121
	$ (43)	$ 54
Changes in other operating activities:		
Provisions	**$ —**	$ 1
Pension benefits	**2**	26
Employee benefit commitment[1]	**(53)**	(12)
Other	**14**	—
	$ (37)	$ 15
Change in non-cash working capital and other operating activities	**$ (80)**	$ 69

1. Refer to note 16.

Capital expenditures on property, plant and equipment comprise the following:

Years ended December 31,	**2018**	2017
Capital expenditures on property, plant and equipment:		
Property, plant and equipment additions	**$ 204**	$ 55
Additions not affecting cash:		
Mortgage payable from acquisition of:		
Land	**(89)**	—
Buildings (incremental cost from previous carrying value as a finance lease)	**(4)**	—
Finance leases - infrastructure and equipment	**(8)**	(22)
Change in trade and other payables and other liabilities relating to construction in progress and other capital additions	**(2)**	—
Other	**—**	4
Capital expenditures on property, plant and equipment	**$ 101**	$ 37

In connection with the Lands acquisition, the Company recognized $89 million of land costs (excluding $4 million cash settled transaction costs) that was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle. Refer to note 11 for further details.

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2018		December 31, 2017	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 268**	**$ 268**	$ 45	$ 45
Restricted cash	**8**	**8**	12	12
Trade and other receivables	**252**	**252**	203	203
Financial liabilities:				
Trade and other payables	**$ 432**	**$ 432**	$ 310	$ 310
Other liabilities	**52**	**52**	67	67
Obligations to independent employee trusts				
Employee benefit commitment	**478**	**469**	344	358
Mortgage payable	**113**	**107**	—	—

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

The fair value of the mortgage payable is an estimate made at a specific point in time, based on relevant market information. This estimate is based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs.

The fair value of the employee benefit commitment is estimated based on a discounted cash flow analysis of expected cash flows, including fixed and variable payments, to be paid in future periods to the pension and OPEB trusts. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return of the Company. Fair value measurements of these instruments were estimated using Level 2 inputs.

The Company has no level 3 financial instruments. There were no transfers between level 1, level 2 or level 3 during the years ended December 31, 2018 or December 31, 2017.

29. CAPITAL MANAGEMENT

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

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

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

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

As at	**December 31, 2018**	December 31, 2017
Amounts drawn under inventory monetization arrangement	**$ 216**	$ 121
Amounts available under ABL facility	**303**	269
Total	**$ 519**	$ 390
Total equity	**411**	309
Total capital	**$ 930**	$ 699

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

30. COMMITMENTS AND CONTINGENCIES

Operating leases

Stelco has entered into operating leases on certain machinery and equipment, with lease terms between 3 and 5 years. In connection with the Lands acquisition on June 5, 2018, the Company's land lease with the Land Vehicle was terminated and the associated rental payments were canceled. Refer to note 11 for further details.

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

As at	**December 31, 2018**	December 31, 2017
One year	**$ 5**	$ 4
2-5 years	**2**	24
5+ years	**—**	138
Total	**$ 7**	$ 166

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, Statements of Income or Statements of Cash Flows.

Purchase commitments

At December 31, 2018, the Company had future commitments of approximately $52 million in capital expenditures, with the majority expected to be paid within 2019.

Cap and trade regulation update

On July 3, 2018, the Government of Ontario revoked the Cap and Trade Regulation and all the other regulations under the Climate Change Mitigation and Low-carbon Economy Act, 2016, effectively ceasing Ontario's Cap and Trade program. The revocation regulation also prohibits registered participants in the former cap and trade program from purchasing, selling, trading or otherwise dealing with emission allowances and credits.

Although the cap and trade program has been canceled, many emitters will still have an obligation to report on their greenhouse gas (GHG) emissions to the Ontario government. Without a cap and trade system or carbon tax in place that meets the minimum federal requirements, the province of Ontario is expected to be subject to the federal carbon pricing legislation, the Greenhouse Gas Pollution Pricing Act, also called the 'Federal Backstop', which received Royal Assent in June 2018.

On November 29, 2018, the Government of Ontario released its proposed Made-in-Ontario Environment Plan (the Provincial Plan). The Provincial Plan requires all large industrial emitters in the province to demonstrate compliance in meeting certain emission levels tied to their level of output or production on a regular basis, and the program may include compliance flexibility mechanisms such as offset credits and/or payment of an amount to achieve compliance, but will not enforce a blanket cap on emissions across Ontario.

The Provincial Plan also includes the Ontario Carbon Trust, which is expected to use financing techniques and market development tools in partnership with the private sector to speed up the deployment of low-carbon solutions, as well as a commitment to green infrastructure projects that lower GHG emissions and reduce pollution, including improvements to transit and transportation infrastructure and improved local water, wastewater and storm water systems.

As at December 31, 2018, Stelco has not recorded a liability in connection with the Federal Backstop or the Provincial Plan as a result of these proposed government regulations still being finalized by the Government of Canada and Ontario, respectively. The Company continues to monitor these developments and will accrue a liability once the costs connected to these programs are probable and measurable.

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

31. 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, directors, key management personnel, among other entities and persons.

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

Years ended December 31,		**2018**		2017
Purchases of services				
Joint ventures	**$**	**15**	$	19
Bedrock Industries B.V.		**7**		23

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

Subsidiaries

Transactions between Stelco and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these Consolidated Financial Statements.

Key management personnel

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and include the executive senior leadership team (ESLT). Prior to the emergence from CCAA, the ESLT comprised of the President and General Manager, Chief Restructuring Officer and certain other members of the senior management team of the Company. Effective July 1, 2017, the ESLT comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice-President and General Counsel & Corporate Secretary of the Company.

During the year ended December 31, 2018, Stelco recorded $4 million (December 31, 2017 - $4 million) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.

Long-term incentive plan

Stelco Holdings established a long-term incentive plan (LTIP) to promote the alignment of senior management, employees and consultants of Stelco Holdings with shareholder interests and the creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent.

Under the terms of the LTIP, the maximum number of common shares that may be subject to awards under this plan or any other share-based compensation arrangements adopted by Stelco Holdings is 2.5 million common shares. No participant may be granted, in any calendar year, share-based awards with respect to more than 5% of the issued and outstanding common shares of Stelco Holdings.

Restricted Share Units

Under the terms of the LTIP, Restricted Share Units (RSU) may be issued to eligible participants as may be designated by Stelco Holdings' Board of Directors from time to time.

Stelco Holdings' is obligated to pay in cash, an amount equal to the number of RSUs multiplied by the fair market value of one common share of Stelco Holdings on the payment date to the participant in respect of vested RSUs within 30 days of the vesting date. Dividends declared on common shares accrue to the RSU holder in the form of additional RSUs.

On December 31, 2018, 34,528 restricted share units were granted to certain employees, including to members of Stelco's ESLT, with a grant date fair value of $15.05 per unit. These RSUs are cash-settled awards with one third of the RSUs vesting on the first vesting date, February 21, 2019, and the remaining two thirds vesting on the first and second year anniversaries respectively of the initial vesting date. The cost of these share based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability recorded in other liabilities on the Consolidated Balance Sheets. The liability is remeasured at fair value at each reporting period date with the vested changes in fair value recorded in the Consolidated Statements of Income.

Share options

Under the terms of the LTIP, share options (Options) may be issued to eligible participants as may be designated by the Stelco Holdings' Board of Directors from time to time. Options are equity-settled share-based payments measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a graded vesting basis over the three year vesting period, based on Stelco Holdings' estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

In accordance with the terms of the LTIP, the exercise price of each Option is not less than the fair market value of Stelco Holdings common shares on the grant date. Options are granted at the discretion of Stelco Holdings' Board of Directors. Other terms and conditions of the LTIP include a maximum 7-year life and immediate vesting under certain change of control provisions. The consideration paid by employees for the purchase of common shares is added to share capital.

On January 10, 2019, 1,500,000 Options were granted and issued to certain members of Stelco's ESLT with an exercise price of $14.59. No share options were granted during the year ended December 31, 2018.

32. EMERGENCE FROM CCAA

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

- Bedrock indirectly acquired all of Stelco's shares from U. S. Steel for cash proceeds of $70 million;
- Secured claims amounting to US$127 million of U. S. Steel for the USS Holdings secured revolving loan and interest which includes US$49 million of other USS trade claims recognized as related party transactions were paid in full;
- Secured claims relating to construction liens of $11 million and realty taxes of $16 million were settled in full;
- Unsecured claims of U. S. Steel loans totaling $1,571 million consisting of the USS term loan and USS unsecured revolving loan, plus accrued interest of $959 million and net trade amounts of $26 million recognized as related party transactions, were discharged and cancelled for nominal consideration;
- General unsecured creditors with proven claims totaling approximately $131 million, which consisted primarily of trade payables, will participate in a pool of $15 million in respect of their claims. The Province of Ontario waived its distribution in respect of its general unsecured loan of $150 million plus interest. In addition, Stelco paid $9 million to settle certain salaried employee and retiree claims. Upon implementation of the Plan, all of these claims were compromised, released, fully discharged and barred;
- U. S. Steel agreed to continue to provide certain business and transition services to Stelco for specified periods and for agreed upon pricing;
- Stelco committed to purchasing all of its iron ore requirements from U. S. Steel through the 2021 shipping season up to a specified maximum amount;
- Stelco's pension and OPEB liabilities of $1,387 million were cancelled and discharged, and the Company concurrently entered into new funding commitments with the pension and OPEB trusts. Stelco committed to pay up to a maximum of $430 million ($30 million of which was paid on June 30, 2017) to fund the Lake Erie Bargaining Unit Pension Plan, Lake Erie Salaried Pension Plan, Hamilton Bargaining Unit Pension Plan, Hamilton Salaried Pension Plan, and the Pickle Line Pension Plan (collectively the Main Pension Plans); a portion of this funding is paid with a certain percentage of free cash flow that are guaranteed by Bedrock up to $160 million. Refer to note 16 for discussion of amended commitments with the pension and OPEB trusts;
- Stelco committed to make fixed contributions of approximately $300 million over 20 years to independent trusts created for the purpose of receiving, holding and distributing funds (the OPEB Entities) on account of OPEBs for legacy employees of Stelco. In addition, Stelco has agreed to pay a portion of its free cash flows and certain tax-related savings amounts to the OPEB Entities subject to certain provincial credit facilities being repaid. Furthermore, Stelco has agreed to make a secured loan available of up to $39 million to the OPEB Entities. Refer to note 16 for discussion of amended commitments with the pension and OPEB trusts;
- Stelco entered into a Tax Savings Agreement with the Province of Ontario, the administrator of the Main Pension Plans and the OPEB Entities pursuant to which 50% of the tax attributes of the Company as at June 30, 2017 were canceled. The Company is required to make payments equal to 33.5% of its annual tax savings realized through the use of its remaining tax attributes. The Main Pension Plans are entitled to the first $75 million of the tax savings, after which they will be shared

equally between the Main Pension Plans and the OPEB Entities. Refer to note 16 for discussion of amended commitments with the pension and OPEB trusts;

- Stelco transferred all of its land assets at Hamilton Works and Lake Erie Works with a net book value of $99 million (note 11) as well as the investment property with a net book value of $21 million to the Land Vehicle formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities. Refer to note 11 for discussion of land and buildings acquisition from the Land Vehicle;
- Stelco entered into a 25-year lease with two 10-year renewal terms and one final 4-year term with the Land Vehicle in respect of the real property on which Hamilton Works and Lake Erie Works are situated; the undiscounted minimum lease payments for the non-cancellable lease term are $229 million. Refer to note 11 for discussion of land and buildings acquisition from the Land Vehicle;
- The Province of Ontario was paid $79 million as a financial assurance that is being held by the Ontario Ministry of the Environment and Climate Change on behalf of the Land Vehicle for the purposes of addressing historical environmental contamination, if any; any amount of such financial assurance that is not required by the Province of Ontario will be released to repay first any outstanding amounts in certain provincial credit facilities, or otherwise in favour of the independent Pension Trusts and OPEB Entities;
- The Province of Ontario provided a non-revolving loan of $22 million to Stelco, of which $10.5 million was drawn and repaid during 2017; and
- Stelco entered into a revolving asset-based lending facility pursuant to which it has the ability to borrow up to the lesser of $375 and a borrowing base calculation that includes a percentage of net accounts receivable, inventory less other reserves. Further information on the terms of the loan are provided in note 15.

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