2018 MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO INC.

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

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Inc.'s results of operations and financial performance for the three months and year ended December 31, 2018 (Q4 2018 and 2018 respectively). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Inc. and its consolidated subsidiaries, and does not include or refer to Stelco Holdings Inc. (Stelco Holdings). This MD&A, which has been prepared as of February 15, 2019, should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2018 (Consolidated Financial Statements). Our 2018 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to Stelco and Stelco Holdings', including our most recently filed Annual Information Form dated February 15, 2019 (AIF), have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website at www.sedar.com.

FORWARD-LOOKING INFORMATION

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

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

The forward-looking information includes, among other things: statements relating to the continuation of the strong production performance; the Company's position to grow organically; expectations regarding utilization of excess capacity; expectations regarding upgrades to existing facilities and their effect on revenue and costs; expectations regarding the Company's access to a wider range of markets; expectations regarding the impact of our tax attributes on our future cash flows; expectations concerning enhanced shipping volumes; statements regarding our dividend policy; expectations concerning working capital and capital expenditures and the future actions relating thereto and the anticipation of creating value and profitability, expectations regarding the Company's ability to continue to attract new customers and further develop and maintain existing customers; expectations regarding the Company's ability to continue to access markets without any further adverse trade restrictions; expectations regarding industry trends, market growth rates and the Company's future growth rates, plans and strategies to increase revenue and cut costs; expectations regarding the future pricing of steel and metals and its resulting impact; statements regarding the impact of the steel import tariffs; statements regarding the potential development opportunities in respect of the Lands (as defined).

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

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

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

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

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

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

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

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

U.S. Section 232 Trade Expansion Act

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

On February 16, 2018, the U.S. Department of Commerce released its report regarding the Section 232 investigation. The recommendations in that report included options regarding tariffs and/or quotas that were intended to adjust the level of steel imports into the United States as it had been determined that those imports were an impairment to national security. Under the statute, the U.S. president was required to adopt, modify or take no action on these recommendations. During March 2018, the U.S. administration imposed tariffs on steel and aluminum imports into the US, but temporarily suspended the implementation of any steel and aluminum tariffs by exempting Canada and certain other countries. On May 31, 2018, the US administration signed a proclamation that as of June 1, 2018, tariffs would no longer be suspended for steel or aluminum imports from Canada, Mexico and the European Union.

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

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

On October 11, 2018, the Government of Canada put in place the United States Surtax Remission Order, which allows for the remission of surtaxes for certain steel and aluminum products imported from the United States that have been determined to be in short supply in Canada. On December 17, 2018, the Remission Order was amended to expand its scope of application on a company-specific basis, based on contractual obligations.

Although the USMCA addresses most aspects of trade between the countries, tariffs on steel and aluminum remain in place. A key Canadian objective in the NAFTA renegotiations was to obtain an exemption from potential future use of U.S. Section 232 measures. The potential use of these measures threatens Canadian producers and workers. Under the USMCA, Canada secured a commitment from the U.S. to provide at least a 60-day exemption from any future measures under Section 232. During this time, the U.S. and Canada would seek to negotiate an appropriate outcome based on industry dynamics and historical trading patterns. The USMCA was signed on November 30, 2018, and is now subject to the approval of the Canadian, U.S., and Mexican governments prior to taking effect.

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

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

Trade Remedy: Dumping and Subsidy Investigations

On May 25, 2018, the Canada Border Services Agency (CBSA) initiated investigations under the *Special Import Measures Act* respecting the alleged injurious dumping and subsidizing of certain cold-rolled steel from China, South Korea and Vietnam. On July 24, 2018, the Canadian International Trade Tribunal (CITT) announced its determination that there is evidence that discloses a reasonable indication that the dumping and subsidizing of the above-mentioned goods have caused or are threatening to cause injury to the domestic industry. Stelco participated in hearings held by the CITT during the week of November 19, 2018. On December 21, 2018, the CITT issued its finding that the dumping and subsidizing of cold-rolled steel sheet from the subject countries caused injury to the domestic industry. Accordingly, imports of the subject goods will be subject to dumping and subsidy margins at the following specified rates as determined by the CBSA: China - 103.5%; South Korea - 64.3%; and Vietnam - 105.7%. This finding will remain in place until a future Expiry Review conducted by the CITT in five-years time.

On July 26, 2018, the CBSA initiated investigations under the *Special Import Measures Act* respecting the alleged injurious dumping of certain corrosion resistant steel from China, South Korea, India and Taiwan. On September 24, 2018, the CITT announced their determination that there is evidence that discloses a reasonable indication that the dumping of the above-mentioned goods have caused or are threatening to cause injury to the domestic industry. On October 24, 2018, the CBSA announced that imports of subject goods from these countries are subject to provisional duties. While certain exporters were assigned individual provisional duty rates, all other exporters from the subject countries were assigned provisional duties at the following specified rates: China - 44.2%; Chinese Taipei - 24.7%; India - 39.3%; and South Korea - 39.3%. Stelco participated in hearings held by the CITT during the week of January 22, 2019. The CITT is expected to issue their findings on February 21, 2019.

Initiation of Safeguard Measures

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

On October 11, 2018, the Government of Canada announced that it had directed the CITT to inquire into and report on the importation of the following seven classes of goods: energy tubular; heavy plate; hot-rolled sheet; pre-painted steel; concrete reinforcing bar; wire rod; and stainless steel wire. The purpose of this inquiry is to determine whether any of the above-mentioned goods are being imported into Canada in such increased quantities and under such conditions as to be a principal cause of serious injury or threat thereof to Canadian producers of like or directly competitive goods. The CITT conducted safeguard hearings for each of the above noted products during January 2019. Stelco participated in safeguard hearings held by the CITT regarding both hot-rolled sheet and pre-painted steel sheet products between January 9 and January 14, 2019 and the CITT will issue a report to the federal Minister of Finance, including any recommendations by April 3, 2019. The Minister of Finance is then expected to consider the report and any recommendations prior to making any final decision regarding further safeguard measures being implemented.

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

Land and Building Acquisition

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

In connection with the Lands acquisition, existing lease arrangements between Stelco and the Land Vehicle were terminated and the associated rental payments were canceled resulting in Stelco's buildings', 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. 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 Ontario Ministry of the Environment, Conservation and Parks (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.

The Lands acquisition provides Stelco with the flexibility to utilize the properties for its existing operations and allows Stelco to develop these properties in a manner that both complements our current and future operations and to pursue other uses for the

Lands; in particular: (i) extracting additional value from our assets by enhancing operating flexibility previously unavailable to us, (ii) lowering our costs, and (iii) creating significant and previously unrealizable value for our shareholders through development of excess land and port facilities located in the Greater Toronto Area. In addition, the Company continues to receive the benefit of the environmental release in respect of the Lands that was granted by the MECP on closing of Stelco's *Companies' Creditors Arrangement Act* (CCAA) reorganization on June 30, 2017.

Amended OPEB Funding Agreement

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

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

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

Return of Capital

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

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.

Strategy

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

Optimize Production From our Assets

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

Maintain our Strong Balance Sheet

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining our strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including Advanced High Steel Strength (AHSS) and Ultra High Steel Strength (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and OPEBs. Further, we have approximately $808 million of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at December 31, 2018, which may allow us to reduce our cash tax payments and increase free cash flow generation. We seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

Maximize Profitability and Cash Flow

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

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

Grow our Business

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

Health, Safety and Environment

Health and Safety

The health and safety of our employees is our top priority. We are committed to continued responsibility and excellence in health and safety and in protecting the environment of the communities where we have operating facilities. In recent years, we have invested in the health and safety of our employees by enhancing personal protective equipment, adding additional safety features to existing equipment and improving the overall conditions of the workplace environment. We also continuously review our policies and procedures ensuring that best practices are implemented across our facilities.

We comply with a variety of health and safety requirements administered by regulatory authorities in Ontario where our facilities are located. We do not believe that we are faced with any requirements in respect of health and safety or industrial hygiene that will have a material adverse effect on our financial position. We maintain an internal health, safety, asset integrity, and risk audit system, which is carried out at the corporate level, to determine compliance with legal requirements and our corporate policies in these areas.

Environmental

We are committed to being an environmentally responsible company and in protecting the environment of the communities where we have operating facilities. Our ISO 14001 registered environmental management system establishes and reviews environmental objectives and targets to: reduce air, water and waste pollution by means of practices, operating procedures and programs; comply with environmental legal requirements and meet our other environmental goals; prevent pollution in a cost effective manner; and continually improve. We review and audit the operating practices of our business to monitor compliance with the Company's environmental policies and legal requirements. We believe that future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on our financial position. In addition, we believe that our plans to increase production to use our substantial excess capacity will not be materially affected by the applicable environmental requirements, including greenhouse gas (GHG) and other air emissions requirements.

As a result of our emergence from CCAA, we entered into a Framework Agreement Concerning Environmental Issues at the Hamilton Works and Lake Erie Works properties with Bedrock and the Province of Ontario (the Environmental Framework Agreement) which we believe has significantly lowered our exposure to unforeseen historic environmental issues at LEW and HW. As Stelco has been conducting steel making operations at HW for more than a century and LEW for several decades, there are instances of historical contamination of the lands at our HW and LEW facilities. Under the terms of the Environmental Framework Agreement, we are working to establish the extent and nature of such historical contamination. We have received a release from the Province of Ontario pursuant to which it agreed not to hold the Company liable for certain historical contamination provided that we comply with the terms of the Environmental Framework Agreement.

By January 1, 2026, LEW and HW will be required to implement plans and measures to reduce the amount of sulphur dioxide (SO2) and other compounds emitted from the combustion of coke oven gas by-product by implementing coke oven gas desulphurization technology. This requirement arises under a notice (Notice) issued under subsection 56(1) of the Canadian Environmental Protection Act, 1999, which requires prescribed persons to prepare and implement pollution prevention plans in respect of specified toxic substances released from the iron and steel sector. The substances are SO2, oxides of nitrogen (NOx), and volatile organic compounds (VOC). The Notice applies to all steel mills, including LEW and HW, other integrated mills, as well as mini (electric arc furnace) mills. The Notice requires these facilities to prepare and implement plans to achieve specified air emission targets for SO2, NOx, and to implement best practices to reduce fugitive emissions of VOCs. As noted above, the target date for desulphurization of coke oven gas is January 1, 2026. The facilities were required to monitor baseline emissions in 2017, prepare a plan in 2018, and implement the plan by the specified date. The facilities will also be required to submit a written declaration that the plan has been prepared, and one that the plan is being implemented, as well as interim progress reports.

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 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.

The Company continues to monitor these developments as these proposed government regulations are still being finalized by the Government of Canada and Ontario, respectively.

Non-IFRS Performance Measures

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

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

Adjusted Net Income

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

Adjusted EBITDA

Adjusted EBITDA is defined as net income or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization and the impact of certain non-routine, non-recurring, and/or non-cash items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) loss from commodity-based swaps, (ii) provision on pension and other post-employment benefits, (iii) restructuring and other costs, (iv) separation costs related to USS support services, (v) acquisition related costs, (vi) gain related to emergence from CCAA, (vii) property related idle costs included in cost of goods sold, and (viii) income related to buildings finance lease termination. Adjusted EBITDA is used by management, investors, and analysts to measure operating performance of the Company and is a supplement to our Consolidated Financial Statements presented in accordance with IFRS. Adjusted EBITDA is a helpful measure of operating performance before non-operating financial items such as finance costs, finance income and income tax expense, as well as depreciation, which are non-cash expenses. Adjusted EBITDA also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company, Adjusted EBITDA is a non-

IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Tariff Adjusted EBITDA

Tariff Adjusted EBITDA, defined as Adjusted EBITDA adjusted for tariff and tariff related costs, is used by management to measure operating performance of the Company and is a supplement to our Consolidated Financial Statements presented in accordance with IFRS. Tariff Adjusted EBITDA is a helpful measure of operating performance, similar to Adjusted EBITDA, enabling management, to gain a clearer understanding of the underlying financial performance of the Company without the impact of tariff and tariff related costs under the U.S. Section 232 tariffs. While management considers Tariff Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company, Tariff Adjusted EBITDA is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA per net ton

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

Tariff Adjusted EBITDA per net ton

We monitor Tariff Adjusted EBITDA per nt, defined as Tariff Adjusted EBITDA (defined above) divided by Shipping Volume (defined below), as a key indicator of performance during the period. Generally, Tariff Adjusted EBITDA per nt is used by management, to measure Adjusted EBITDA on a per ton basis, while excluding the impact from tariff and tariff related costs. Tariff Adjusted EBITDA per nt is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Selling Price per net ton

We believe another key measure of performance is Selling Price per nt, which is defined as revenue from steel products divided by nt shipped in the period. Starting in the second quarter of 2018, we have modified the revenue component (or numerator) of the Selling Price per net ton measure to only include revenue from steel products. Previously, Selling Price per net ton included total revenue, which comprised of both revenue from steel products and non-steel products. We believe this change provides a greater level of consistency with total shipments (or denominator) of Selling Price per net ton, which only includes shipment of steel products during the period. The prior periods have been restated to reflect the change in presentation.

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

Shipping Volume

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

Selected Financial Information

The following table provides selected annual information for the respective year ended December 31, as indicated:

(millions of Canadian dollars, except where otherwise noted)		2018		2017		2016
Financial results						
Total revenue	**$**	**2,460**	$	1,601	$	1,302
Gross profit		**523**		192		15
Selling, general and administration expenses		**52**		77		24
Net income (loss)		**247**		3,579		(236)
Adjusted net income (loss) [1]		**431**		45		(137)
Adjusted EBITDA [1]		**544**		216		88
Tariff Adjusted EBITDA [1]		**617**		216		88
Operating Results						
Selling price per nt (in dollars per nt) [1]	**$**	**889**	$	772	$	643
Adjusted EBITDA per nt (in dollars per nt) [1]		**208**		108		45
Tariff Adjusted EBITDA per nt (in dollars per nt) [1]		**235**		108		45
Shipping volumes (in thousands of nt)		**2,620**		2,003		1,976
Hot-rolled		**2,080**		1,471		1,446
Coated		**338**		379		412
Cold-rolled		**77**		58		14
Other		**125**		95		104

As at December 31,		2018		2017		2016
Financial position						
Total assets	**$**	**1,493**	$	1,035	$	1,200
Total non-current liabilities		**508**		351		1,036

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

Review of Annual Financial Results

Net income for the year ended December 31, 2018, was $247 million compared to $3,579 million during 2017, representing a decrease of $3,332 million or 93%. Net income for the 2017 period includes a $3,653 million gain related to Stelco's emergence from CCAA, associated with the extinguishment and/or satisfaction of secured and unsecured claims through the CCAA process during the first half of the year. Excluding the $3,653 million gain, net income for the 2018 period of $247 million compared to an adjusted net loss for 2017 of $74 million, resulted in an increase of $321 million which is largely the net effect of the following:

- $331 million increase in gross profit from $859 million higher revenue from sale of goods partly offset by $528 million increase in cost of goods sold;
- $30 million decrease in restructuring and other costs; and
- $25 million lower selling, general and administrative expenses; partly offset by
- $61 million higher finance costs; and
- $4 million decrease in finance and other income.

Revenue

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

Revenue increased by $859 million or 54%, from $1,601 million in 2017 to $2,460 million in 2018, primarily due to an increase in shipping volumes and the selling price per nt in connection with a general improvement in the market price of steel. Selling price per nt increased by $117 per nt, from $772 per nt in 2017 to $889 per nt in 2018. The increase in selling price is mainly due to higher market prices for steel, which reflects macroeconomic conditions around supply and demand for steel products. Also impacting revenue for the year was non-steel sales which increased $75 million, from $55 million in 2017 to $130 million during 2018, mostly due to metallurgical coke sales. Our shipping volumes increased by 617 thousand nt or 31% to 2,620 thousand nt in 2018 from 2,003 thousand nt in 2017 primarily due to higher hot-rolled, cold-rolled and other coil sales during the year. The sales product mix for our highest steel shipments of hot-rolled and coated products represented approximately 79% and 13%, respectively, of the total sales volume for 2018, whereas in 2017 it was approximately 73% and 19%, respectively.

Gross profit

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

Gross profit increased by $331 million or 172%, from $192 million in 2017 to $523 million in 2018, mainly due to higher revenue, partly offset by an increase in cost of goods sold. The higher cost of goods sold was mainly attributed to higher shipping volumes and an increase in raw material costs, tariffs, freight costs and depreciation expense. Raw material costs increased year-over-year primarily due to the following; contractual price escalations related to our iron ore purchases, higher zinc and scrap metal costs and metallurgical coal consumption. The Company incurred approximately $73 million of tariff related charges during 2018 in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

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

Furthermore, included in gross profit for the period is the impact of a $6 million inventory revaluation adjustment which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the period.

Selling, general and administrative expenses

Our selling, general and administrative (SG&A) expenses are predominantly comprised of corporate functions, and include employee salary and benefits, marketing, professional and legal fees, travel, and other expenses related to the corporate infrastructure required to support our business. SG&A costs also include costs associated with establishing and enhancing support functions and information systems that have historically been provided to the Company by USS, such as costs related to implementing our new cloud-based Enterprise Resource Planning (ERP) system. On October 2, 2018, Stelco completed the initial phase of the conversion to a new ERP system with the remaining phases of the ERP implementation expected to be substantially complete during the second half of 2019.

(millions of Canadian dollars)

Years ended December 31,	**2018**	2017	2016
ERP implementation	**$ 18**	$ 22	$ 3
Employee (active) salary and benefits expense	**17**	11	8
Management fees	**7**	3	—
Professional, consulting and legal fees	**5**	6	1
Acquisition related costs	**—**	18	—
Settlement of a contract cancellation	**—**	6	—
Employee (inactive) benefits expense	**—**	4	8
Shared service arrangement	**—**	2	3
Other [1]	**5**	5	1
	$ 52	$ 77	$ 24

[1] Includes corporate and travel related expenses.

SG&A expenses for 2018 primarily includes the following: $18 million in ERP implementation expenses relating to the separation from USS, $17 million in corporate and administrative employee salaries and benefits, $7 million in management fees to an affiliate of Bedrock and $5 million in professional, consulting and legal fees. During 2017, our SG&A expenses also included $18 million in acquisition related costs associated with the purchase of the Company by Bedrock and a $6 million settlement related to the cancellation of a customer contract.

Finance costs

(millions of Canadian dollars) Years ended December 31,	**2018**	2017	2016
Remeasurement of employee benefit commitment [1]	**$ 144**	$ 10	$ —
Accretion of employee benefit commitment	**43**	17	—
Interest on loans and borrowings	**14**	117	200
Foreign exchange loss (gain)	**14**	4	(4)
Accretion on financial lease obligation	**1**	2	—
Other	**(1)**	4	1
	$ 215	$ 154	$ 197

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

Finance costs increased by $61 million or 40%, from $154 million in 2017 to $215 million during 2018, primarily due to $160 million of higher remeasurement and accretion expenses associated with our employee benefit commitment obligation, partly offset by a $103 million decrease in interest on loans and borrowings mostly related to the extinguishment of $1.8 billion of debt through the CCAA process and $10 million related to the negative impact period-over-period of foreign exchange translation on U.S. dollar denominated working capital.

During June 2018, in connection with the Amended OPEB Funding Agreement (discussed further in the *'Business Overview'* section of this MD&A), Stelco incurred a remeasurement charge of $157 million related to the employee benefit commitment, derived as the difference between the estimated discounted cash flows from the Original OPEB Funding Agreement compared to those from the Amended OPEB Funding Agreement. The employee benefit commitment (including both the Original and Amended OPEB Funding Agreements) consists of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. Due to the nature of the underlying estimates, assumptions and its long-term nature, the employee benefit commitment is sensitive to changes in these estimates and assumptions. Estimates of expected cash flows are revisited at the end of each reporting period to determine the carrying amount of amortized cost. Refer to note 16 of the Consolidated Financial Statements for further details.

In addition, during March 2018, the Company paid a $20 million advance contribution pursuant to the Original OPEB Funding Agreement, that was estimated as at December 31, 2017 to be paid during the year 2020. As a result of this accelerated payment and the impact to the present value of the employee benefit commitment, the Company recognized an increase of $4 million to the liability with a corresponding increase in finance costs on the Consolidated Statement of Income.

Interest on loans and borrowings for 2018 include finance costs associated with our inventory monetization agreement and Stelco's mortgage note issued during June 2018 as consideration for the acquisition of the Lands from the Land Vehicle, discussed further in the '*Business Overview'* section of this MD&A.

Finance and other income

(millions of Canadian dollars) Years ended December 31,	**2018**	2017	2016
Loss on commodity-based swaps	**$ (10)**	$ —	$ —
Finance income	**2**	1	1
Other income	**9**	4	4
	$ 1	$ 5	$ 5

For 2018, finance and other income decreased by $4 million from $5 million in 2017, to $1 million for the year. The decrease was primarily due to a $10 million realized loss from commodity-based swaps and higher other income of $5 million.

During the first quarter of 2018, the Company entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. These swap contracts matured and settled during May 2018. The Company did not enter these contracts for trading or speculative purposes.

Other income includes $9 million associated with the termination of lease-related obligations in connection with the Lands acquisition discussed further in note 11 to the Consolidated Financial Statements. 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 2017, other income includes certain recoveries related to insurance claims and property tax rebates.

Finance income for 2018 primarily includes interest income from cash deposits at a Schedule I bank.

Restructuring and other costs

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

(millions of Canadian dollars) Years ended December 31,	**2018**	2017	2016
Consulting and monitor costs [1]	**$ 2**	$ 18	$ 15
Legal costs [1]	**1**	14	12
Other [2]	**5**	6	9
	$ 8	$ 38	$ 36

1. Consulting and legal costs are expected to continue into 2019.
2. Other includes building related costs incurred by Stelco related to the Land Vehicle and utility costs incurred by Stelco for non-operating and idled assets prior to their acquisition from the Land Vehicle on June 5, 2018.

Review of Non-IFRS Measures

Adjusted net income (loss)

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

(millions of Canadian dollars, except where otherwise noted) Years ended December 31,	**2018**	2017	2016
Net income (loss)	**$ 247**	$ 3,579	$ (236)
Add back/(Deduct):			
Remeasurement of employee benefit commitment [1]	**144**	10	—
Separation costs related to USS support services [2]	**20**	27	3
Loss from commodity-based swaps	**10**	—	—
Restructuring and other costs [3]	**8**	38	36
Property related idle costs included in cost of goods sold [4]	**5**	—	—
Income related to buildings finance lease termination [5]	**(3)**	—	—
Acquisition related costs [6]	**—**	18	—
Provision on pension and other post-employment benefits [7]	**—**	26	60
Gain related to emergence from CCAA [8]	**—**	(3,653)	—
Adjusted net income (loss)	**$ 431**	$ 45	$ (137)

1. Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
4. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
5. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
6. Acquisition costs related to the purchase of Stelco by Bedrock.
7. Represents difference between total cash funding obligation for pensions and OPEBs.
8. Represents the gain from the implementation of the CCAA plan on June 30, 2017.

Adjusted net income for 2018 was $431 million compared to $45 million during 2017 representing an increase of $386 million or 858% which is primarily due to the following:

- $307 million increase in gross profit (adjusted for lower provision on pension and other post-employment benefits of $26 million and a decrease for separation costs related to USS support services of $3 million, party offset by higher property related idle costs included in cost of goods sold of $5 million);
- $73 million lower finance costs (adjusted for an increase in remeasurement charges from the employee benefit commitment of $134 million);
- $3 million lower selling, general and administrative expenses (adjusted for acquisition related costs of $18 million and lower ERP implementation costs of $4 million); and
- $3 million increase in finance and other income (adjusted for a loss from commodity-based swaps of $10 million, partly offset by income related to buildings finance lease termination of $3 million).

Included in adjusted net income for the period is the impact of a $6 million inventory revaluation adjustment which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the period.

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

Adjusted EBITDA and Tariff Adjusted EBITDA

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

(millions of Canadian dollars, except where otherwise noted)

Years ended December 31,	**2018**	2017	2016
Net income (loss)	**$ 247**	$ 3,579	$ (236)
Add back/(Deduct):			
Finance costs	**215**	154	197
Depreciation	**44**	28	29
Separation costs related to USS support services [1]	**20**	27	3
Loss from commodity-based swaps	**10**	—	—
Restructuring and other costs [2]	**8**	38	36
Property related idle costs included in cost of goods sold [3]	**5**	—	—
Income related to buildings finance lease termination [4]	**(3)**	—	—
Finance income	**(2)**	(1)	(1)
Provision on pension and other post-employment benefits [5]	**—**	26	60
Acquisition related costs [6]	**—**	18	—
Gain related to emergence from CCAA [7]	**—**	(3,653)	—
Adjusted EBITDA	**$ 544**	$ 216	$ 88
Add back: Tariff related costs [8]	**73**	—	—
Tariff Adjusted EBITDA	**$ 617**	$ 216	$ 88
Percentage of total revenue:			
Adjusted EBITDA	**22%**	13%	7%
Tariff Adjusted EBITDA	**25%**	13%	7%

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

Adjusted EBITDA for the period was $544 million compared to $216 million during 2017 representing an increase of $328 million or 152% which is mainly due to the following:

- $323 million increase in gross profit (adjusted for lower provision on pension and other post-employment benefits of $26 million and a decrease for separation costs related to USS support services of $3 million, partly offset by an increase in depreciation expense of $16 million and higher property related idle costs included in cost of goods sold of $5 million);
- $3 million lower selling, general and administrative expenses (adjusted for acquisition related costs of $18 million and lower ERP implementation costs of $4 million); and
- $2 million increase in other income (adjusted for a loss from commodity-based swaps of $10 million, partly offset by income related to buildings finance lease termination of $3 million).

Included in Adjusted EBITDA for the period is the impact of a $6 million inventory revaluation adjustment which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the period.

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

Other Non-IFRS Measures

Selling price per net ton

Selling price per nt increased by $117 per nt or 15%, from $772 per nt in 2017 to $889 per nt for 2018. The increase in the selling price per nt was due to a general improvement of the market price of steel. Our shipping volumes increased to 2,620 thousand nt in 2018 from 2,003 thousand nt in 2017 primarily due to higher hot-rolled and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 79% and 13%, respectively, of the total sales volume in 2018, whereas for 2017 was approximately 73% and 19% respectively.

Adjusted EBITDA per net ton

Adjusted EBITDA per nt increased by $100 per nt or 93%, from $108 per nt in 2017 to $208 per nt for 2018, as a result of an increase of Adjusted EBITDA of $328 million, partly offset by an increase in shipping volumes of 617 thousand nt.

Shipping Volume

Shipping volume increased 617 thousand nt or 31%, from 2.0 million nt in 2017 to 2.6 million nt for 2018. Hot-rolled coil shipments increased 41% from 1,471 thousand nt in 2017 to 2.1 million nt in 2018. Coated shipments decreased 11% from 379 thousand nt in 2017 to 338 thousand nt in 2018. Cold-rolled coil shipments increased 33% from 58 thousand nt in 2017 to 77 thousand nt in 2018. Other shipments (including non-prime coils) increased 32% from 95 thousand nt in 2017 to 125 thousand nt in 2018.

Review of Balance Sheets

The following table provides selected balance sheet information as indicated:

(millions of Canadian dollars)

As at December 31,	**2018**	2017	2016
Cash and cash equivalents	**$ 268**	$ 45	$ 188
Trade and other receivables	**252**	203	237
Inventories	**468**	448	314
Property, plant and equipment	**465**	305	378
Total assets	**$ 1,493**	$ 1,035	$ 1,200
Trade and other payables	**432**	310	457
Other liabilities	**52**	67	892
Obligations to independent employee trusts	**591**	344	—
Total liabilities	**$ 1,082**	$ 726	$ 4,487
Total equity	**$ 411**	$ 309	$ (3,287)

As reflected in the selected balance sheet information above, between December 31, 2017 and 2018, the Company increased trade and other receivables from $203 million to $252 million (an increase of $49 million or 24%), increased trade and other payables from $310 million to $432 million (an increase of $122 million or 39%), reduced other liabilities from $67 million to $52 million (a reduction of $15 million or 22%), increased total liabilities from $726 million to $1,082 million (an increase of $356 million or 49%), and increased total equity from $309 million to $411 million (an increase of $102 million or 33%).

Our inventory increased from $448 million at December 31, 2017 to $468 million at December 31, 2018, primarily due to an increase in raw material levels resulting from receipts of coal and iron ore during the second half of the year. Partly offsetting our raw material increase in inventory during the year were higher sales and shipments of steel and non-steel products.

Property, plant and equipment increased to $465 million at December 31, 2018 from $305 million at December 31, 2017, mainly due to our acquisition of the Lands and capital expenditures related to normative and growth projects at our blast furnace, hot strip mill and other capital assets relating to operations, partly offset by depreciation expense for the year. Refer to note 11 to the Consolidated Financial Statements for further details regarding the Lands acquisition.

During 2018, the Company received net proceeds of approximately $83 million drawn under the inventory monetization arrangement. Changes in the carrying amounts are primarily repayments related to receipts and consumption of raw materials by the Company monetized under this arrangement. As at December 31, 2018, amounts drawn under this arrangement amounted to $216 million compared to $121 million as at December 31, 2017 and are recorded within trade and other payables.

The obligations to independent employee trusts increased from $344 million at December 31, 2017 to $591 million at December 31, 2018 primarily due a $134 million increase in the employee benefit commitment and a new mortgage payable of $114 million in connection to the acquisition of the Lands. The increase in the employee benefit commitment is primarily due to a remeasurement charge of $157 million recorded in finance costs for the year in connection with the Company entering into an Amended OPEB Funding Agreement. The Amended OPEB Funding Agreement reduced the Company's exposure to future variable funding requirements, and provided the OPEB trusts with an increased fixed funding commitment over a 25 year term. Refer to the '*Business Overview*' and '*Review of Annual Financial Results - Finance Costs*' sections in this MD&A for further details.

We expect our cashflow from operations to be favourably impacted in the short to medium term due to substantial tax attributes which, as at December 31, 2018, can shield pre-tax income of approximately $808 million (or approximately $202 million on an after tax basis) from taxation. These tax attributes include non-capital loss carry forwards of $374 million ($93 million after tax), undepreciated capital cost deductions (UCC) of $398 million ($100 million after tax) and scientific research and experimental development (SRED) deductions of $36 million ($9 million after tax), which are expected to reduce the amount of taxes otherwise payable by Stelco and form part of future deposits into the ELHTs. Refer to *'Commitments and Contingencies - Employee Benefit Commitments'* section in this MD&A for further details.

Review of Cash Flows

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

(millions of Canadian dollars) Year ended December 31,		**2018**		2017		2016
Cash and cash equivalents, beginning of year	**$**	**45**	$	188	$	162
Cash provided by (used in):						
Operating activities		**389**		(184)		43
Investing activities		**(97)**		(40)		(17)
Financing activities		**(69)**		81		—
Cash and cash equivalents, end of year	**$**	**268**	$	45	$	188

Cash provided by operating activities

For 2018, cash provided by operating activities totaled $389 million compared to cash used in operating activities of $184 million in 2017. Cash provided by operating activities for 2018 benefited from higher gross profit due to increased steel prices and shipping volumes, partly offset by the impact of working capital, from the timing of cash disbursements and receipts of inventory related items compared to December 31, 2017.

Cash used in investing activities

For 2018, cash used in investing activities totaled $97 million compared to $40 million for 2017. Cash used in investing activities for 2018 included capital expenditures of $101 million primarily related to normative and growth projects at our blast furnace, hot strip mill and other capital assets relating to operations. Partly offsetting our cash used for capital expenditures during the year, was a $4 million decrease in restricted cash in connection with funds held by the monitor as part of the CCAA proceedings.

Cash used in financing activities

For 2018, cash used in financing activities totaled $69 million which includes the net effect of the following: return of capital payment to Stelco Holdings Inc. of $150 million, inventory monetization arrangement net proceeds of $83 million; and asset-based lending facility draws and repayments of $79 million and $80 million respectively, during the year.

Results of Operations

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

During the first quarter of 2018, Stelco was impacted by a truck and driver shortage across North America which resulted in higher transportation costs for the Company during the period. In addition, winter weather conditions made certain shipping options impractical for the first three months. As a result, in order to support our current production levels and higher customer orders, the Company expanded its distribution capabilities by adding approximately 220 rail cars to its transportation fleet through leasing arrangements. These rail cars were mostly received and entered into service in the second quarter of 2018, and during the third quarter we added another 160 rail cars to our transportation fleet. Each rail car is capable of carrying up to 90 nt of steel compared to the typical freight truck which is capable of carrying up to 30-60 nt of steel depending on the jurisdiction traveled. Furthermore, we have increased our shipping capacity through our LEW dock enhancement project which was completed in May 2018. Barges loaded from our LEW dock are typically capable of carrying between 8 to 12 thousand nt of steel and vessels up to 20 thousand nt of steel. These shipping enhancements contributed in reducing our inventory backlog from the first quarter and consistent market demand for our steel products, reduced our estimated delivery lead time from eight to ten weeks from the date of order in the first quarter to three to four weeks at the date of this MD&A.

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

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

In addition to upgrades at our hot strip mill, we continued to focus on other business strategies of asset optimization and expansion of our production capabilities through initiatives such as: utilizing excess capacity at our LEW hot strip mill and pickle lines and HW coke ovens, restarting HW temper mill and installing annealing furnaces, and upgrading finishing mill roll bearings at our hot strip mill. We expect that successful completion of these initiatives will ultimately help us grow our revenues, improve our steel production capabilities and lower our total costs per nt. We anticipate that these initiatives will be completed during the remainder of 2019.

Throughout 2018, Stelco continued to pursue the evaluation and design of a co-generation facility at its LEW facility with the objective of lowering the Company's overall power consumption costs. The Company has been working with eligible power facility developers in connection with a design and evaluation project. The co-generation project remains in the early stages of evaluation and technical design. There is no assurance that the company will be able to reach a suitable arrangement with a developer or the applicable government agency to achieve a successful outcome. See “*Forward-Looking Information*” for a discussion of the uncertainties, risks and assumptions associated with this statement.

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

Capital Resources and Liquidity

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

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

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

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

The Company expects to have sufficient working capital for 2019 based on the following:

- the Company’s overall working capital position was significantly improved because of the CCAA restructuring;
- the Company has negotiated favourable payment terms with its vendors, thereby improving its working capital without the need for additional funding;
- as at December 31, 2018, the Company had a cash balance of $268 million and $303 million available under the asset-based lending facility;
- the inventory monetization arrangement continues to provide the Company liquidity on certain of its raw material purchases; and
- as at December 31, 2018, Stelco Holdings (on a non-consolidated basis) had a cash balance of $170 million, a portion of which could be made available to the Company for general corporate purposes and working capital.

Credit Facility and Other Arrangements

Asset-Based Lending (ABL) Facility

In connection with Stelco's emergence from CCAA, the Company entered into an asset-based lending (ABL) agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of $375 million. 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, Stelco 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 and the Company was in compliance with the financial covenants at December 31, 2018.

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 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.

As at December 31, 2018, amounts advanced under this arrangement were $216 million compared to $121 million as at December 31, 2017. Cash amounts advanced under this arrangement represent a financial liability to the Company which is recorded within trade and other payables on the Company's statement of financial position. 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%.

Share Capital

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

Return of Capital

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

Commitments and Contingencies

Employee Benefit Commitments

- The Company has funding commitments with certain pension and OPEB trusts. Stelco committed to pay up to a maximum of $430 million to fund five main defined benefit pension plans previously sponsored by Stelco (Main Pension Plans).
- On June 5, 2018, the Company entered into an Amended OPEB Funding Agreement, replacing the Original OPEB Funding Agreement, and committed to fixed contributions of approximately $494.5 million over twenty five years to the ELHTs created for receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco. In addition, Stelco agreed to pay a portion of its free cash flows (as defined) and certain tax-related savings amounts to the ELHTs.
- Bedrock has guaranteed certain minimum contributions to the Main Pension Plans up to a maximum amount of $160 million. The amount of such guarantee is reduced based upon, among other things, certain contributions being made to the Main Pension Plans over time. The guarantee will be discharged upon the earlier of the $160 million being reduced to zero or the aggregate amount of all payments made by Stelco or Bedrock reaching $300 million.
- Certain components of the employee benefit commitments are tied to the Company's future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company in its Consolidated Balance Sheet is determined based upon the present value of those future payments as estimated by management. Changes in the magnitude or timing of those estimated future cash payments may result in the employee benefit commitment liability balances being adjusted upward or downward in future periods. If such adjustments to the liability carrying value were to occur, the Company would also recognize a corresponding expense item in its Consolidated Statements of Income as an element of finance cost. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.

Other Commitments

- Iron Ore Contract - Stelco committed to purchasing all of its iron ore requirements up to a specified amount from USS through the 2021 shipping season. This agreement contains a fixed price which is adjusted quarterly based on changes in specified indices.

- Transition Services Agreements - USS agreed to continue to provide certain business and transition services to Stelco for a maximum term expiring no later than June 30, 2019.
- Union Agreements - Stelco has collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending July 1, 2022.

Operating Leases

The Company has operating leases on certain machinery, equipment and rail cars, with lease terms between one to five years. Additionally, in connection with the Company's emergence from CCAA, the Company sold and leased back the land on which HW and LEW are situated under a 25 year lease. In connection with the Lands acquisition on June 5, 2018, the HW and LEW land leases were terminated and the associated rental payments were canceled. Refer to note 11 of the Consolidated Financial Statements for further details.

Finance Leases

As at December 31, 2018, Stelco has a finance lease obligation with a carrying amount of $8 million (December 31, 2017 - $24 million, includes buildings and equipment leases), associated with certain equipment on its Consolidated Balance Sheets. During the second quarter of 2018, Stelco acquired the Lands from the Land Vehicle resulting in the derecognition of the Company's building finance lease obligation of $24 million. Refer to note 11 of the Consolidated Financial Statements for further details.

Claims and litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's Consolidated Balance Sheets, Statements of Income, or Statements of Cash Flows.

Contractual Obligations

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

			Payments due by period		
(millions of Canadian dollars)		**Total**	**2019**	**2020 to 2023**	**Thereafter**
Trade payables	$	**215**	$ **215**	$ **—**	$ **—**
Inventory monetization arrangement		**216**	**216**	**—**	**—**
Operating leases		**7**	**5**	**2**	**—**
Finance lease obligations		**9**	**1**	**4**	**4**
Purchase obligations - non-capital [1]		**836**	**633**	**125**	**78**
Purchase obligations - capital		**52**	**49**	**3**	**—**
Obligations to independent employee trusts [2]		**1,186**	**112**	**275**	**799**
Total Contractual Obligations	**$**	**2,521**	**$ 1,231**	**$ 409**	**$ 881**

1. Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
2 . Represents estimated undiscounted cashflows related to the obligations to independent employee trusts.

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

Cap and trade regulation update

As discussed further in the *'Health, Safety and Environment'* section of this MD&A, 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. 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.

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.

Related Party Transactions

Parties are considered to be related if one party has the ability to control, jointly control or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, joint ventures, investments in associates, among other entities and persons.

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

Subsidiaries

Transactions between Stelco and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in this MD&A.

Key Management Personnel

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

During the 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.

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)	2018				2017			
As at and for the three months ended [1]	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Financial results								
Total revenue	**$ 648**	**$ 619**	**$ 711**	**$ 482**	$ 452	$ 336	$ 427	$ 386
Steel products	**617**	**574**	**672**	**467**	425	326	415	380
Non-steel products	**31**	**45**	**39**	**15**	27	10	12	6
Gross profit	**131**	**149**	**175**	**68**	69	12	65	46
Selling, general and administrative expenses	**15**	**12**	**14**	**11**	15	12	40	10
Net income (loss)	**108**	**123**	**(12)**	**28**	16	(13)	3,593	(17)
Adjusted net income (loss) [2]	**98**	**131**	**153**	**49**	49	(9)	(3)	8
Adjusted EBITDA [2]	**145**	**154**	**175**	**70**	69	7	76	64
Tariff Adjusted EBITDA [2]	**168**	**193**	**186**	**70**	69	7	76	64
Financial position								
Total assets	**1,493**	**1,281**	**1,317**	**946**	1,035	850	854	n.a.
Total non-current liabilities	**508**	**519**	**508**	**332**	351	325	392	n.a.
Operating results								
Selling Price per nt (in dollars per nt) [2]	**917**	**980**	**898**	**762**	718	793	828	762
Adjusted EBITDA per nt (in dollars per nt) [2]	**215**	**263**	**234**	**114**	117	17	151	128
Tariff Adjusted EBITDA per nt (in dollars per nt) [2]	**250**	**329**	**249**	**114**	117	17	151	128
Shipping volumes (in thousands of nt)	**673**	**586**	**748**	**613**	592	411	501	499
Hot-rolled	**553**	**446**	**590**	**491**	473	299	359	340
Coated	**79**	**82**	**93**	**84**	77	78	103	121
Cold-rolled	**10**	**19**	**33**	**15**	15	12	17	14
Other	**31**	**39**	**32**	**23**	27	22	22	24

n.a. - not applicable.

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

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

Trend Analysis

Stelco's financial performance declined slightly in Q4 2018 over Q3 2018 primarily as a result of lower average steel selling prices and sales of non-steel products, partly offset by increased sales volume of steel products.

Revenue increased 5% from $619 million in Q3 2018 to $648 million in Q4 2018. The increase in revenue reflects 15% higher steel shipping volumes from 586k nt in Q3 2018 to 673k nt in Q4 2018, partly offset by a 6% decrease in average selling prices which decreased from $980/nt in Q3 2018 to $917/nt in Q4 2018 and $14 million lower non-steel sales mostly related to metallurgical coke products. In connection with our planned hot-strip mill outage during September 2018, we experienced a general decline in our shipping volumes and lower production of steel products during the third quarter of 2018. The upgrades completed during the third quarter are expected to provide better gauge control and increased rolling force, and enable Stelco to better participate in the AHSS, High Strength Low Alloy (HSLA), and value added coated markets. We also performed outages in our blast furnace, BOF and caster in September. We executed a number of strategic outages throughout 2018, which were intended to improve reliability and efficiency of our production facilities, and are in preparation for hot strip mill enhancements planned for the remainder of 2019.

Revenue increased 48% from $482 million in Q1 2018 to $711 million in Q2 2018. The increase in revenue reflects a 22% increase in steel selling volumes from 613k nt in Q1 2018 to 748k nt in Q2 2018, and an 18% increase in average selling price which increased from $762/nt in Q1 2018 to $898/nt in Q2 2018. Investments in logistics capabilities, including rail and barge shipping, significantly improved our capacity to ship products to our customers, and was an important driver in the Q2 2018 shipping volumes. In Q2 2018 non-steel revenue also increased $24 million quarter over quarter primarily due to the sale of excess coke. We experienced a general decline in our shipping volumes for Q3 2017 due to a planned blast furnace outage, which included applying a protective shotcrete refractory to the blast furnace internal walls to improve the operational reliability and extend the working life of the furnace. Revenue decreased 13% from $711 million in Q2 2018 to $619 million in Q3 2018. The decrease in revenue reflects a 22% decrease in steel shipping volumes from 748k nt in Q2 2018 to 586k nt in Q3 2018, partly offset by a 9% increase in average selling price which increased from $898/nt in Q2 2018 to $980/nt in Q3 2018 and higher non-steel sales of $6 million mostly related to excess metallurgical coke products. As previously discussed above, Stelco experienced a general decline in shipping volumes and lower production of steel products during the third quarter of 2018 primarily due to the planned hot-strip mill outage.

With exception of Q3 2017, gross profits since Q1 2017 were primarily driven by generally higher sales volumes and selling prices per nt , partly offset by higher raw material costs. During Q3 2017, as previously noted in the revenue discussion above, the Company completed a blast furnace outage which reduced our sales volumes. Gross profit for Q3 2017 was impacted by lower sales, outage related costs and higher raw material costs, partly offset by generally higher selling prices per nt for our steel products during the same the period. Compared to Q4 2017, our Q1 2018 gross profit includes the impact from a significant increase in purchased scrap costs, adding approximately $6 million in costs to our operations in the period. Increases in scrap market prices generally are a factor in the market price of hot-rolled coil steel. As a result of the lag we have in our business, we have historically experienced a delay between the expenses related to the increase in scrap costs and Stelco being able to capitalize on the higher market prices of hot-rolled coil. In addition, severe winter weather conditions impacted our operations and expenses during the first quarter of 2018. In particular, an early freeze on the Great Lakes and severe cold weather resulted in incremental fuel and electricity costs of approximately $6 million, and $2 million of incremental raw material shipping costs. Also impacting the first quarter of 2018, as a result of a shortage of trucking assets across North America, our shipping costs increased between $4 million and $5 million during the quarter, as compared to Q4 2017. For Q2 2018, Stelco continued to realize both increased shipping volumes, through improved logistic capabilities, and selling prices which led to the highest quarterly gross profit to date since Bedrock acquired the Company on June 30, 2017, which were partly offset by $11 million of tariff related costs. Gross profit for Q3 2018 decreased compared to Q2 2018 primarily due to lower revenue from lower shipping volumes realized and higher costs associated with raw materials, tariffs and hot-strip mill outage related costs incurred during the period. In particular for Q3 2018, the Company incurred $39 million of tariff related charges and approximately $10 million of unabsorbed manufacturing variances and other outage related costs connected to the hot-strip mill outage during the period. Gross profit for Q4 2018 decreased compared to Q3 2018 primarily due to lower average selling price of steel, partly offset by higher shipping volumes realized and lower tariffs and hot-strip mill outage related costs incurred during the period. The Company incurred approximately $23 million of tariff related charges during Q4 2018.

SG&A expenses generally increased during 2017 as the Company incurred costs associated with its separation from USS, in particular for Q2 2017 which includes $13 million in cloud-based ERP implementation costs and $18 million in acquisition related costs. During 2018, SG&A primarily consisted of ERP implementation, employee salary and benefit related costs, and management fees.

With the exception of Q3 2017 and Q2 2018, net income (loss) has shown improvement since Q1 2017. During Q2 2017, the Company recorded a $3,665 million gain on emergence from CCAA. Excluding this gain, the Company had a net loss of $72 million which included the impact from $71 million in finance costs, $24 million in restructuring costs, and $40 million in SG&A (as discussed above). During Q2 2018, the Company incurred a remeasurement charge of $157 million related to the employee benefit commitment, derived as the difference between the estimated discounted cash flows from the Original OPEB Funding Agreement compared to those from the Amended OPEB Funding Agreement. Excluding the impact of this finance cost, the Company had net income of $145 million in Q2 2018, primarily due to the same factors as described in gross profit above. Net income for Q3 2018 increased compared to Q2 2018 primarily due to lower finance costs (in particular a Q2 2018 remeasurement charge related to the employee benefit commitment described above) partly offset by a decrease in revenue from less shipping volumes realized and higher costs associated with raw materials, tariffs and planned hot-strip mill outage related costs incurred during the period. Net income for Q4 2018 decreased compared to Q3 2018 primarily due to lower gross profit and unrealized foreign exchange loss during the period, partly offset by higher other income related to lease terminations in connection with the Lands acquisition.

With the exception of Q3 2017, Adjusted EBITDA improved in 2017 due to generally higher revenues from market steel price increases and higher sales volumes (as noted above). During Q3 2017, consistent with the realized gross profit (as discussed above) for the period, Adjusted EBITDA was lower than the comparable periods in 2017, primarily due to the same factors impacting gross profit above. Adjusted EBITDA improved significantly in Q2 2018 over Q1 2018, increasing 150% from $70 million in Q1 to $175 million in Q2, reflecting higher revenue and operating leverage, as discussed above, partly offset by approximately $11 million of tariff related costs during the second quarter. A positive outcome from the Q2 2018 growth in selling volumes and a positive pricing environment was the 25% Adjusted EBITDA margin in the quarter, up from the 15% Adjusted EBITDA margin in Q1 2018. Adjusted EBITDA has decreased since Q2 2018 primarily due to the same factors described for gross profit above.

Unaudited Consolidated Statements of Income

(millions of Canadian dollars) Three months ended December 31,		2018		2017
Revenue from sale of goods	**$**	**648**	$	452
Cost of goods sold		**517**		383
Gross profit		**131**		69
Selling, general and administrative expenses		**15**		15
Operating income		**116**		54
Other income (loss) and (expenses)				
Finance and other income		**10**		1
Finance costs		**(17)**		(21)
Restructuring and other costs		**(1)**		(5)
Share of loss from joint ventures		**—**		(1)
Loss related to emergence from CCAA [1]		**—**		(12)
Income before income taxes		**108**		16
Income tax expense		**—**		—
Net income	**$**	**108**	$	16

1. Loss on emergence from CCAA relates to a $12 million adjustment associated with a change in the expected timing of payments and total cashflows impacting our measurement of the Company's employee benefit commitment liability at the date of Stelco's emergence from CCAA.

Review of Fourth Quarter Financial Results

Net income for the fourth quarter of 2018 was $108 million compared to $16 million for the same period during 2017, representing an increase of $92 million which is primarily due to the net effect of the following:

- $62 million increase in gross profit from $196 million higher revenue from sale of goods partly offset by $134 million increase in cost of goods sold;
- $12 million decrease in loss related to emergence from CCAA;
- $9 million increase in finance and other income; and
- $4 million decrease in restructuring and other costs.

Revenue

Revenue increased by $196 million or 43%, from $452 million in Q4 2017 to $648 million in Q4 2018, primarily due to an increase in shipping volumes and the selling price per nt in connection with a general improvement in the market price of steel. Selling price per nt increased by $199 per nt, from $718 per nt in Q4 2017 to $917 per nt in Q4 2018. The increase in selling price in the fourth quarter of 2018 compared to the same period in 2017 is mainly due to higher market prices for steel, which reflects macroeconomic conditions around supply and demand for steel products. Also impacting revenue for the quarter was non-steel sales which increased $4 million, from $27 million in the fourth quarter of 2017 to $31 million during the same period in 2018, mostly due to metallurgical coke sales. Our shipping volumes increased to 673 thousand nt in Q4 2018 from 592 thousand nt in Q4 2017 primarily due to higher hot-rolled, coated and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 82% and 12%, respectively, of the total sales volume in Q4 2018, whereas the comparative period in 2017 was approximately 80% and 13%, respectively.

Gross profit

Gross profit increased by $62 million, from $69 million in Q4 2017 to $131 million in Q4 2018 mainly due to higher revenue, partly offset by an increase in cost of goods sold. The higher cost of goods sold was mainly attributed to higher shipping volumes and an increase in raw material costs, tariffs, freight costs and depreciation expense. Raw material costs increased period-over-period primarily due to the following; contractual price escalations related to our iron ore purchases and scrap metal costs, partly offset by lower metallurgical coal and zinc prices. The Company incurred approximately $23 million of tariff related charges during the fourth quarter of 2018 in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

Selling, general and administrative expenses

(millions of Canadian dollars) Three months ended December 31,	**2018**	2017
Employee (active) salary and benefits expense	**$ 5**	$ 4
ERP implementation	**4**	5
Management fees	**3**	2
Professional, consulting and legal fees	**2**	2
Other	**1**	2
	$ 15	$ 15

SG&A expenses for the fourth quarter of 2018 primarily includes the following: $5 million in corporate and administrative employee salaries and benefits, $4 million in ERP implementation expenses relating to the separation from USS and $3 million in fees related to management services provided by an affiliate of Bedrock during the period. Costs related to the establishment of our new cloud based ERP system do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

Finance costs

(millions of Canadian dollars) Three months ended December 31,	**2018**	2017
Remeasurement of employee benefit commitment [1]	**$ (15)**	$ 10
Accretion of employee benefit commitment	**12**	9
Interest on loans and borrowings	**5**	1
Foreign exchange loss (gain)	**15**	(2)
Accretion on financial lease obligation	**—**	1
Other	**—**	2
	$ 17	$ 21

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

Finance costs for the quarter of $17 million, decreased $4 million compared to $21 million during the same period of 2017, due to the following; $25 million period-over-period gross remeasurement recovery on our employee benefit commitment due to a change in timing of estimated cash flows and future funding requirements and $3 million lower accretion on financial lease obligations and other finance costs, partly offset by $17 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital, $4 million increase in interest on loans and borrowings and $3 million higher accretion expense associated with our employee benefit commitment obligation.

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

Finance and other income

(millions of Canadian dollars) Three months ended December 31,	**2018**	2017
Finance income	**$ 1**	$ —
Other income	**9**	1
	$ 10	$ 1

Other income for the fourth quarter of 2018 includes $9 million associated with the termination of lease-related obligations in connection with the Lands acquisition discussed further in note 11 of the Consolidated Financial Statements. The lease termination related income consisted of a $6 million straight-line land lease recovery, previously recognized and expensed within cost of goods sold, and $3 million in buildings finance lease depreciation and accretion recovery.

Review of Non-IFRS Measures Fourth Quarter Results

Adjusted net income

The following table provides a reconciliation of net income to adjusted net income for periods indicated:

(millions of Canadian dollars) Three months ended December 31,		**2018**		2017
Net income	**$**	**108**	$	16
Add back/(Deduct):				
Remeasurement of employee benefit commitment [1]		**(15)**		10
Separation costs related to USS support services [2]		**5**		6
Restructuring and other costs [3]		**1**		5
Property related idle costs included in cost of goods sold [4]		**2**		—
Income related to buildings finance lease termination [5]		**(3)**		—
Loss related to emergence from CCAA [6]		**—**		12
Adjusted net income	**$**	**98**	$	49

1. Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
4. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
5. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
6. Represents the gain from the implementation of the CCAA plan on June 30, 2017.

Adjusted net income for the quarter was $98 million compared to an adjusted net income of $49 million for Q4 2017 representing an increase of $49 million which is primarily due to the following:

- $64 million increase in gross profit (adjusted for higher property related idle costs included in cost of goods sold of $2 million); and
- $6 million increase in finance and other income (adjusted for income related to buildings finance lease termination of $3 million); partly offset by
- $21 million higher finance costs (adjusted for a gross increase in remeasurement recovery from the employee benefit commitment of $25 million); and
- $1 million higher selling, general and administrative expenses (adjusted for lower ERP implementation costs of $1 million).

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

Adjusted EBITDA

The following table provides a reconciliation of net income to Adjusted EBITDA for the periods as indicated:

(millions of Canadian dollars) Three months ended December 31,		**2018**		2017
Net income	**$**	**108**	$	16
Add back/(Deduct):				
Finance costs		**17**		21
Depreciation		**16**		9
Separation costs related to USS support services [1]		**5**		6
Restructuring and other costs [2]		**1**		5
Property related idle costs included in cost of goods sold [3]		**2**		—
Income related to buildings finance lease termination [4]		**(3)**		—
Finance income		**(1)**		—
Loss related to emergence from CCAA [5]		**—**		12
Adjusted EBITDA	**$**	**145**	$	69
Add back: Tariff related costs [6]		**23**		—
Tariff Adjusted EBITDA	**$**	**168**	$	69
Percentage of total revenue:				
Adjusted EBITDA		**22%**		15%
Tariff Adjusted EBITDA		**26%**		15%

1. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
2. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
3. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
4. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
5. Loss on emergence from CCAA relates to a $12 million adjustment associated with a change in estimate on expected timing of payments and total cashflows impacting our measurement of the Company's employee benefit commitment liability at the date of Stelco's emergence from CCAA.
6. Includes tariff and tariff related costs connected with U.S. bound steel shipments.

Adjusted EBITDA

Adjusted EBITDA for the quarter was $145 million compared to $69 million for Q4 2017 representing an increase of $76 million which is primarily due to the following:

- $71 million increase in gross profit (adjusted for an increase in depreciation expense of $7 million and higher property related idle costs included in cost of goods sold of $2 million); and
- $5 million increase in other income (adjusted for income related to buildings finance lease termination of $3 million); partly offset by
- $1 million higher selling, general and administrative expenses (adjusted for lower ERP implementation costs of $1 million).

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

Other Non-IFRS Measures

Selling price per net ton

Selling price per nt increased by $199 per nt or 28%, from $718 per nt in Q4 2017 to $917 per nt in Q4 2018. The increase in the selling price per nt was due to a general improvement of the market price of steel. Our shipping volumes increased to 673 thousand nt in Q4 2018 from 592 thousand nt in Q4 2017 primarily due to higher hot-rolled, coated and other coil sales during the period. The sales product mix for our hot-rolled and coated products represented approximately 82% and 12%, respectively, of the total sales volume in Q4 2018, whereas the same period in 2017 was approximately 80% and 13% respectively.

Adjusted EBITDA per net ton

Adjusted EBITDA per nt increased by $98 per nt, from $117 per nt in Q4 2017 to $215 per nt in Q4 2018, as a result of an increase of Adjusted EBITDA of $76 million, partly offset by an increase of 81 thousand nt increase in shipping volumes.

Shipping Volume

Shipping volume increased 81 thousand nt or 14%, from 592 thousand nt in Q4 2017 to 673 thousand nt in Q4 2018. Hot-rolled coil shipments increased 17% from 473 thousand nt in Q4 2017 to 553 thousand nt in Q4 2018. Coated shipments increased 3% from 77 thousand nt in Q4 2017 to 79 thousand nt in Q4 2018. Cold-rolled coil shipments decreased 33% from 15 thousand nt in Q4 2017 to 10 thousand nt in Q4 2018. Other shipments (including non-prime coils) increased 15% from 27 thousand nt in Q4 2017 to 31 thousand nt in Q4 2018.

Significant Accounting Policies

Our significant accounting policies are described in note 3 of our Consolidated Financial Statements. The Company is required to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

Estimations and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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.

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.

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 expected credit losses (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.

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.

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.

Changes in accounting policies

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

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

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

IFRS 9 - Financial instruments (IFRS 9)

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.

Weighted average method for raw material inventory cost measurement

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.

Future Changes in Accounting Policies

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

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

IFRS 16 - Leases (IFRS 16)

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, *Leases;* IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives;* and SIC-27, Evaluating the Substance of Transactions Involving the legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019. Obligations under operating leases and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. In connection with Stelco's land and buildings acquisition from Legacy Lands Limited Partnership (the Land Vehicle) and concurrent termination of associated lease arrangements discussed further in note 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.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures (DCP)

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of Stelco have designed or caused to be designed under their direct supervision the Company's DCP to provide reasonable assurance that:

i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and

(ii) information required to be disclosed by the Company in its annual and interim fillings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The CEO and CFO are assisted in this responsibility by a Disclosure Committee, which is composed of members of the executive management team. The Disclosure Committee has established disclosure controls and procedures so that it becomes aware of any material information affecting Stelco in order to evaluate and communicate this information to management of the Company, including the CEO and CFO, as appropriate and determine the appropriateness and timing of any required disclosure. It was determined, as at December 31, 2018, Stelco's DCP were adequate and effective.

Internal Controls over Financial Reporting (ICFR)

Stelco Holdings has established adequate ICFR to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including Stelco Holdings' CEO and CFO has assessed or caused an assessment under their direct supervision, of the design and operating effectiveness of the Company's ICFR as at December 31, 2018 on the criteria set forth in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, it was determined that, as at December 31, 2018, the Company's ICFR were appropriately designed and were operating effectively based on the criteria established in the Internal Control - Integrated Framework (2013). There were no changes in the Company's ICFR during the financial year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items:

(i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances;

(ii) the impact of any undetected errors; and

(iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

ERP implementation

On October 2, 2018, Stelco completed the initial phase of the conversion to a new ERP system and does not expect the ERP conversion to result in any significant changes in internal controls over financial reporting or the overall control environment for the remainder of 2019. Management employed appropriate procedures to ensure internal controls were in place during and after the conversion.

Risk and Uncertainties

Financial 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, please 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.

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.

Corporate Information - Stelco Holdings Inc.

Executive Management

Alan Kestenbaum
Chief Executive Officer

Don Newman
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

David Cheney
Executive Vice-President

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

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

Michael W. Dees [4,6]
Partner, Lindsay Goldberg

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

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

Brian Levitt [2,3,6]
Chairman of the Board of Directors of the Toronto-Dominion Bank

Peter Bowie [1]
Corporate Director

Jacob Lew
Partner, Lindsay Goldberg

Indira Samarasekera [5]
Corporate Director

[1] Chair of the Audit Committee.
[2] Member of the Audit Committee.
[3] Chair of the Compensation, Governance and Nominating Committee.
[4] Member of the Compensation, Governance and Nominating Committee.
[5] Chair of the Environmental, Health and Safety Committee.
[6] Member of the Environmental, Health and Safety Committee.

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Stock Exchange Listing

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

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