Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three and Six Months Ended June 30, 2019 and 2018

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

As at	Note		**June 30, 2019**		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		**$**	**277**	$	438
Restricted cash			**10**		8
Trade and other receivables	*3*		**170**		252
Inventories			**466**		468
Prepaid expenses			**10**		28
Total current assets		**$**	**933**	$	1,194
Non-current assets					
Property, plant and equipment, net	*4*		**569**		448
Intangible assets			**7**		7
Investment in joint ventures			**4**		6
Total non-current assets		**$**	**580**	$	461
Total assets		**$**	**1,513**	$	1,655
Liabilities					
Current liabilities					
Trade and other payables	*5*	**$**	**401**	$	436
Other liabilities	*6*		**38**		40
Obligations to independent employee trusts	*8*		**82**		103
Total current liabilities		**$**	**521**	$	579
Non-current liabilities					
Provisions			**5**		5
Pension benefits			**4**		2
Other liabilities	*6*		**19**		13
Obligations to independent employee trusts	*8*		**470**		488
Total non-current liabilities		**$**	**498**	$	508
Total liabilities		**$**	**1,019**	$	1,087
Equity					
Common shares	*9*		**512**		512
Treasury shares	*9*		**—**		(1)
Retained earnings (deficit)			**(18)**		57
Total equity		**$**	**494**	$	568
Total liabilities and equity		**$**	**1,513**	$	1,655

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

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In millions of Canadian dollars, except per share amounts) (Unaudited)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2019**	2018	**2019**	2018
Revenue from sale of goods	*11*	**$ 431**	$ 711	**$ 948**	$ 1,193
Cost of goods sold	*12*	**416**	534	**875**	946
Gross profit		**$ 15**	$ 177	**$ 73**	$ 247
Selling, general and administrative expenses	*13*	**12**	15	**26**	27
Operating income		**$ 3**	$ 162	**$ 47**	$ 220
Other income (loss) and (expenses)					
Finance costs	*14*	**(3)**	(170)	**(6)**	(186)
Finance and other income (loss)	*15*	**2**	—	**5**	(10)
Share of loss from joint ventures		**(1)**	(1)	**(2)**	(1)
Restructuring and other costs		**—**	(2)	**—**	(5)
Income (loss) before income taxes		**$ 1**	$ (11)	**$ 44**	$ 18
Income tax expense	*16*	**—**	—	**—**	—
Net income (loss)		**$ 1**	$ (11)	**$ 44**	$ 18
Net income (loss) per common share					
Basic	*18*	**$ 0.01**	$ (0.12)	**$ 0.50**	$ 0.20
Diluted	*18*	**$ 0.01**	$ (0.12)	**$ 0.50**	$ 0.20

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

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Net income (loss)	**$ 1**	$ (11)	**$ 44**	$ 18
Other comprehensive income:				
Items that are not recycled or reclassified to income:				
Remeasurement gain on defined benefit pension obligation of equity accounted investment	**—**	3	**—**	3
Other comprehensive income, net of income taxes	**$ —**	$ 3	**$ —**	$ 3
Comprehensive income (loss), net of income taxes	**$ 1**	$ (8)	**$ 44**	$ 21

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

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

	Note	Number of common shares (in thousands)	Common shares	Treasury shares	Contributed Surplus	Retained earnings (deficit)	Total equity
Balance, December 31, 2017		88,814	$ 512	$ —	$ —	$ (15)	$ 497
Changes during the period:							
Net income		—	—	—	—	18	18
Other comprehensive income		—	—	—	—	3	3
Dividends to common shareholders		—	—	—	—	(18)	(18)
Balance, June 30, 2018		88,814	$ 512	$ —	$ —	$ (12)	$ 500
Balance, December 31, 2018		88,757	$ 512	$ (1)	$ —	$ 57	$ 568
Changes during the period:							
Net income		**—**	**—**	**—**	**—**	**44**	**44**
Treasury shares cancelled	*9*	**—**	**—**	**1**	**—**	**(1)**	**—**
Dividends to common shareholders	*9*	**—**	**—**	**—**	**—**	**(118)**	**(118)**
Balance, June 30, 2019		**88,757**	**$ 512**	**$ —**	**$ —**	**$ (18)**	**$ 494**

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

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

Six months ended June 30,	Note		**2019**		2018
Operating activities					
Net income		**$**	**44**	$	18
Items not affecting cash:					
Depreciation			**23**		14
Share-based compensation			**3**		—
Share of loss from joint ventures			**2**		1
Provision for doubtful accounts (recovery)			**—**		(2)
Employee benefit commitment:					
Accretion expense			**22**		19
Remeasurement costs (recovery)	*8*		**(16)**		161
Change in non-cash working capital and other operating items	*17*		**68**		35
Cash provided by operating activities		**$**	**146**	$	246
Investing activities					
Capital expenditures on property, plant and equipment	*17*		**(117)**		(27)
Change in restricted cash			**(2)**		2
Cash used in investing activities		**$**	**(119)**	$	(25)
Financing activities					
Advances from asset-based lending facility, net of transaction costs			**51**		29
Repayment of asset-based lending facility			**(51)**		(29)
Lease obligation principal payments			**(5)**		—
Repayment of inventory monetization arrangement, net	*5*		**(65)**		(32)
Dividends paid to common shareholders	*9*		**(118)**		(18)
Cash used in financing activities		**$**	**(188)**	$	(50)
Net increase (decrease) in cash and cash equivalents			**(161)**		171
Cash and cash equivalents, beginning of period			**438**		250
Cash and cash equivalents, end of period		**$**	**277**	$	421
Cash flows provided by operating activities include:					
Interest paid			**10**		4
Interest received			**3**		1

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION

Stelco Holdings Inc. (Stelco Holdings) was incorporated on September 25, 2017 under the *Canada Business Corporations Act* and was formed for the purposes of completing an initial public offering (IPO) of its common shares. On November 10, 2017, Stelco Holdings completed its IPO, listing its common shares on the Toronto Stock Exchange (TSX) under the symbol 'STLC'.

On November 10, 2017, Stelco Holdings acquired all of the issued and outstanding shares of Stelco Inc. (Stelco). Stelco (formerly known as U. S. Steel Canada Inc.) is principally engaged in the production and sale of steel products. Stelco is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America.

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

Stelco Holdings' registered and head offices are located at 386 Wilcox Street, Hamilton, Ontario, Canada.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Stelco Holdings' unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the year ended December 31, 2018 (2018 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2018 Annual Financial Statements, with the exception of the accounting policies impacted by the adoption of new standards and interpretations effective January 1, 2019, as noted below. Certain comparative information has been reclassified to conform to the current period's presentation.

These Consolidated Financial Statements were authorized for issue on August 13, 2019 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

Changes in accounting policies

Stelco Holdings has adopted each of the standards and policies noted below on January 1, 2019:

a) 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 substantially unchanged, such that lessors continue to classify leases as finance or operating leases. IFRS 16 replaces the following: 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 Company adopted IFRS 16 using the modified retrospective application of comparative information, by applying a single discount rate for a portfolio of leases with reasonably similar characteristics and excluding short-term and low-value leases.

On January 1, 2019, in connection with the adoption of IFRS 16, the Company recorded a $9 million increase to property, plant and equipment and other liabilities on the Consolidated Balance Sheet, respectively, relating to certain equipment leases that were previously classified as operating leases and disclosed as off-balance sheet commitments as at December 31, 2018. Refer to notes 4 and 6, respectively, for further details on the impact of the transition to IFRS 16 on property, plant and equipment, and other liabilities.

b) 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 adoption of this standard did not have an impact on the Consolidated Financial Statements.

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

3. TRADE AND OTHER RECEIVABLES

As at		June 30, 2019		December 31, 2018
Trade receivables [1]	$	165	$	249
Other receivables		5		3
Total trade and other receivables	**$**	**170**	$	252

[1] Net of allowance for doubtful accounts of nil (December 31, 2018 - nil).

Receivables Purchase Agreement (RPA)

During June 2019, Stelco entered into a RPA with a Schedule II bank (the Purchaser), enabling Stelco Inc. from time to time, to sell certain customers' trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, the aggregate maximum purchase limit under this arrangement is $108 million (which includes a USD$12.5 million limit on certain customers' trade receivables) and requires that Stelco administer and process in the collection of receivables and remit those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Consolidated Balance Sheet as substantially all of the risks and rewards have been transferred to the Purchaser.

Proceeds received by Stelco under the RPA, are recorded within cash flows from operations on the Consolidated Statement of Cash Flows. The Company recorded $0.2 million in bank fees in connection with the RPA, within finance costs on the Consolidated Statement of Income.

4. PROPERTY, PLANT AND EQUIPMENT

Cost		**Land**		**Buildings**		**Machinery and equipment**		**Vehicles**		**Assets under leases**		**Construction in progress**		**Total**
As at December 31, 2018	$	93	$	26	$	298	$	8	$	8	$	61	$	494
Additions		17		4		3		—		6		94		124
Transfers		—		8		47		1		—		(56)		—
Disposals and other		—		—		(3)		—		—		—		(3)
Spare parts reclassified as equipment [1]		—		—		11		—		—		—		11
IFRS 16 adjustment		—		—		—		—		9		—		9
As at June 30, 2019	**$**	**110**	**$**	**38**	**$**	**356**	**$**	**9**	**$**	**23**	**$**	**99**	**$**	**635**

[1] Represents machinery spare parts that contain capital attributes including, but not limited to, future benefit to the Company for a period greater than 12 months. On January 1, 2019, these items were reclassified from spare parts inventory to equipment.

Accumulated depreciation		**Land**		**Buildings**		**Machinery and equipment**		**Vehicles**		**Assets under leases**		**Construction in progress**		**Total**
As at December 31, 2018	$	—	$	—	$	44	$	1	$	1	$	—	$	46
Depreciation		—		—		19		—		4		—		23
Disposals and other		—		—		(3)		—		—		—		(3)
As at June 30, 2019	**$**	**—**	**$**	**—**	**$**	**60**	**$**	**1**	**$**	**5**	**$**	**—**	**$**	**66**
Net book value														
As at June 30, 2019	**$**	**110**	**$**	**38**	**$**	**296**	**$**	**8**	**$**	**18**	**$**	**99**	**$**	**569**
As at December 31, 2018	$	93	$	26	$	254	$	7	$	7	$	61	$	448

Acquisition of Land and Buildings

On May 8, 2019, Stelco completed the acquisition of certain land parcels and buildings (collectively the Remaining Lands) adjacent to Stelco's Hamilton Works operation for total cash consideration of $21 million, which includes $0.5 million in transaction costs. The acquisition of the Remaining Lands completes Stelco's repurchase of all Hamilton Works lands which were previously sold to Legacy Lands Limited Partnership prior to Stelco's emergence from the Companies' Creditors Arrangement Act (CCAA) reorganization on June 30, 2017.

The Company continues to receive the benefit of the environmental release in respect of the Hamilton Works lands and the Remaining Lands that was granted by the Ministry of the Environment, Conservation and Parks on closing of the CCAA reorganization.

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

Assets under leases

Included in property, plant and equipment are certain buildings, infrastructure and equipment acquired under lease arrangements. As at June 30, 2019, the net carrying amounts of these assets under leases was $18 million (December 31, 2018 - $7 million), which includes an IFRS 16 adjustment of $9 million. Refer to note 2 for details pertaining to the adoption of IFRS 16 and adjustments to the Consolidated Financial Statements.

5. TRADE AND OTHER PAYABLES

As at		June 30, 2019		December 31, 2018
Trade payables	$	257	$	219
Inventory monetization arrangement		142		216
Payables to related parties[1]		2		1
Total trade and other payables	$	401	$	436

[1] Refer to note 22 for details.

Inventory monetization arrangement

The weighted average finance rate for the inventory monetization arrangement for the three and six months ended June 30, 2019 was 5.10% and 4.98%, (three and six months ended June 30, 2018 - 5.36% and 5.45%), respectively, and is recorded in finance costs on the Consolidated Statements of Income (Loss). This financing arrangement is secured by inventory with a carrying value of $191 million (December 31, 2018 - $225 million) serving as collateral.

On August 6, 2019, Stelco entered into an amended inventory monetization arrangement for which terms have remained substantially similar to the previous inventory monetization arrangement. Amendments include, but are not limited to the following: i) the inclusion of metallurgical coke and prime slab inventory as eligible products under the monetization arrangement, ii) market pricing adjustment mechanism for certain items such as changes in product quality, freight costs, tariffs or similar trade regulations, iii) increased reporting and settlement frequency, iv) Stelco to maintain a minimum liquidity balance of at least $50 million, which includes cash and cash equivalents of $30 million, v) finance rate of LIBOR plus a margin of 3.00% (previously LIBOR plus a margin of 2.50%), and vi) an option for Stelco to terminate the arrangement early on either April 30, 2020 or May 29, 2020. Unless otherwise amended or renewed, amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on June 30, 2020.

6. OTHER LIABILITIES

As at		June 30, 2019		December 31, 2018
Salaries and benefits payable	$	24	$	33
Lease obligations		18		8
Post-employment benefits		7		7
Share-based compensation [1]		3		—
Interest payable		1		2
Other liabilities		4		3
Total other liabilities	$	57	$	53
Total current other liabilities	$	38	$	40
Total non-current other liabilities	$	19	$	13

[1] Refer to note 10 for details.

Lease obligations

As at June 30, 2019, the Company has equipment lease obligations with a carrying value of $18 million (December 31, 2018 - $8 million), which includes an IFRS 16 adjustment of $9 million. Refer to note 2 for details pertaining to the adoption of IFRS 16 and adjustments to the Consolidated Financial Statements.

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

Other liabilities

Included in other liabilities at June 30, 2019 is a carbon tax provision of $3 million connected to Stelco's estimated amounts payable under the *Greenhouse Gas Pollution Pricing Act* (Federal Backstop) for industrial facilities with greenhouse gas emissions. The carbon tax provision was calculated using an output-based pricing system as regulated by the Federal Backstop, including the Company's estimated excess annual green house gas emissions under the Federal Backstop, prorated for the six months ended June 30, 2019.

7. ASSET-BASED LENDING FACILITY (ABL)

During the six months ended June 30, 2019, Stelco's borrowing and repayment activity on the ABL facility resulted in a nil outstanding balance as at June 30, 2019 (December 31, 2018 - nil). 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 certain of Stelco's trade receivables and inventory balances. At June 30, 2019, the available borrowing base was $238 million.

In addition, Stelco's outstanding letters of credit under this ABL were $57 million at June 30, 2019 (December 31, 2018 - $41 million). The weighted average finance rate for amounts drawn under this facility for the three and six months ended June 30, 2019, was 5.79% and 5.86%, respectively, and the Company was in compliance with the financial covenants at June 30, 2019. The Company's ABL finance rate includes the following components: i) the financing rate is the Canadian/US prime rate plus 0.25% - 0.75%, ii) the option to index the interest rate to CDOR/LIBOR plus a margin of 1.25% - 1.75%, and iii) the letter of credit fee is a range of 1.25% - 1.75%.

Collateral related to the ABL facility includes certain qualified trade receivables and inventory, and excludes accounts receivable that have been sold under the RPA and inventory that has been monetized under the amended inventory monetization arrangement discussed further in note 5 to the Consolidated Financial Statements.

8. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**June 30, 2019**		December 31, 2018
Employee benefit commitment	**$**	**439**	$	478
Mortgage payable		**113**		113
Obligations to independent employee trusts		**552**		591
Current		**82**		103
Non-current	**$**	**470**	$	488

The Company's obligations to independent employee trusts consists of multiple arrangements that contain future funding requirements to certain pension and independent employee health and life trusts. These funding requirements include both fixed scheduled payments and estimated variable contributions based on Stelco's future operating performance and the utilization of specific tax attributes.

Employee benefit commitment

Future employee benefit commitment payments are estimated as follows:

As at		**June 30, 2019**
2019 [1]	**$**	**54**
2020		**42**
2021		**62**
2022		**64**
2023		**39**
Thereafter		**622**
Total estimated employee benefit commitment payments	**$**	**883**
Less: amounts representing future finance costs		**(444)**
Present value of employee benefit commitment	**$**	**439**

[1] Represents remaining six months of 2019.

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 long-term estimates, the employee benefit commitment is highly sensitive to changes in these assumptions. Refer to note 14 for remeasurement of the employee benefit commitment recorded in finance costs on the Consolidated Statement of Income, as a result of changes in estimates and assumptions during the three and six months ended June 30, 2019, related to this obligation.

Mortgage payable

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

As at		**June 30, 2019**
2019 [1]	**$**	**5**
2020		**11**
2021		**11**
2022		**11**
2023		**11**
Thereafter		**206**
Total future mortgage payments	**$**	**255**
Less: amounts representing future finance costs		**(142)**
Carrying amount of mortgage payable	**$**	**113**

[1] Represents remaining six months of 2019.

The Company's land and buildings serve as security for the mortgage payable and certain obligations in respect of the employee benefit commitment.

9. SHARE CAPITAL

Stelco Holdings' authorized share capital includes an unlimited number of common shares with no par value and an unlimited number of preferred shares, issuable in series. No preferred shares have been issued to date. The common shares are entitled to dividends, as and when declared by the Board of Directors. The following common shares were issued and outstanding at each respective date:

As at		**June 30, 2019**		December 31, 2018
Common shares				
Outstanding (in thousands)		**88,757**		88,757
Carrying amount	**$**	**512**	$	512
Treasury shares				
Outstanding (in thousands)		**—**		57
Carrying amount	**$**	**—**	$	1

Dividends to common shareholders

Common share dividends declared and paid during the six months ended June 30, 2019 were as follows:

Record date	Payment date		Cash dividend per common share		Total common share dividends
March 13, 2019	March 20, 2019	$	1.13	$	100
March 13, 2019	March 22, 2019		0.10		9
May 27, 2019	May 31, 2019		0.10		9

Subsequent to June 30, 2019, the Board of Directors declared a dividend of $0.10 per common share, payable on August 30, 2019 to shareholders of record as of August 23, 2019.

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

Normal Course Issuer Bid (NCIB)

During February 2019, Stelco Holdings canceled 56,600 common shares (previously classified as treasury shares at December 31, 2018) at a weighted average price of $15.24 per common share for a total cost of $0.9 million. The excess of the purchase price over the carrying amount of the common shares purchased, was recorded as a reduction to retained earnings amounting to $0.5 million.

During the three and six months ended June 30, 2019, Stelco Holdings did not purchase for cancellation any of its common shares under its NCIB.

10. SHARE-BASED COMPENSATION

Long-term incentive plan

During 2018, Stelco Holdings established an amended and restated long-term incentive plan (LTIP), which was approved by common shareholders at the annual general and special meeting of common shareholders held on June 28, 2018. The LTIP was designed to promote the alignment of senior management, employees and consultants of the Company 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 the LTIP 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 the Board of Directors from time-to-time. The Company 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 the Company on the distribution date to the participant in respect of vested RSUs within thirty (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 RSUs were granted to certain employees, including to members of the Company's Executive Senior Leadership Team (ESLT), with a grant date fair value of $15.05 per RSU. 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 anniversary, respectively, of the initial vesting date.

On February 22, 2019, 58,167 RSUs were granted to certain members of the Company's ESLT, with a grant date fair value of $18.39 per RSU. These RSUs are cash-settled awards with the RSUs vesting as to one-third of the total grant amount on each of the first three anniversaries of the grant date.

(RSUs in total)	
Balance, as at January 1, 2019	34,528
Granted	63,942
Cash-settled	(17,625)
Balance, as at June 30, 2019	**80,845**

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 changes in fair value recorded in the Consolidated Statements of Income (Loss).

Share options

Under the terms of the LTIP, share options (Options) may be issued to eligible participants as may be designated by the Board of Directors from time to time. Options are share-based payments measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant and are expensed on a graded vesting basis over the vesting period, based on Stelco Holdings' estimate of the Options that will eventually vest and adjusted for the effect of non -market-based vesting conditions. Vested Options may be exercised to purchase common shares of Stelco Holdings or surrendered for cash at the election of the Option holder. Given the alternative settlement options at the election of the participants, the Company has accounted for these Options as cash-settled awards which are remeasured at fair value at each reporting period date with the changes in fair value recorded in the Consolidated Statements of Income (Loss).

In accordance with the terms of the LTIP, the exercise price of each Option may not be less than the fair market value of the common shares of Stelco Holdings on the grant date. Options are granted at the discretion of the Board of Directors. Other terms and conditions of the LTIP in respect of Options 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 upon exercise of Options is added to share capital.

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

On January 10, 2019, 1,500,000 Options were granted and issued to certain members of the ESLT with an exercise price of $14.59. Two-thirds of the Options vest on January 10, 2020, with the remaining one-third vesting on January 10, 2021. As at June 30, 2019 there were 1,500,000 unvested and outstanding Options.

The Company accounts for Options by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period. The Black-Scholes option-pricing model assumptions used to estimate the fair value of the Options at the grant date were as follows:

Options granted (in total)		1,500,000
Option exercise price (per Option)	$	14.59
Expected risk-free interest rate		1.9%
Expected distribution yield		2.7%
Expected unit price volatility		38%
Expected Option life (years)		4.5
Fair value of Options granted (per Option)	$	4.36

For the three and six months ended June 30, 2019, the Company recorded an expense of $1 million and $3 million, respectively, in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) related to the vesting of these share options. The estimated fair value of the Options outstanding as at June 30, 2019, is $4.43 per Option.

Deferred share unit plan

Stelco Holdings has a deferred share unit (DSU) plan for the independent members of its Board of Directors which provides that each independent director receives, on each date that the director retainer fees are payable, an amount of DSUs which the director has elected relative to their respective fee entitlement. Each independent director can elect annually to receive a specified percentage of their respective direct retainer fee entitlement as DSUs. The number of DSUs granted to an independent director is based on the closing price of the common shares of Stelco Holdings on the TSX on the grant date. Dividends declared on common shares accrue to the DSU holder in the form of additional DSUs. At such time as an independent director ceases to be a director of the Company, Stelco Holdings will make a cash payment to the applicable director in respect of the total amount of the issued and outstanding DSUs held by such director based on the fair market value of the common shares of Stelco Holdings at such time. As at June 30, 2019, there were 14,109 DSUs outstanding, for which the Company recognized a liability of $0.2 million.

11. REVENUE FROM SALE OF GOODS

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Steel products	**$ 415**	$ 672	**$ 921**	$ 1,139
Non-steel products	**16**	39	**27**	54
Total	**$ 431**	$ 711	**$ 948**	$ 1,193

Revenue by geographical location is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Canada	**$ 341**	$ 485	**$ 805**	$ 880
United States	**90**	226	**143**	313
Total	**$ 431**	$ 711	**$ 948**	$ 1,193

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

12. COST OF GOODS SOLD

Cost of goods sold is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Cost of inventories:				
Steel products	**$ 380**	$ 481	**$ 804**	$ 855
Non-steel products	**9**	25	**16**	35
Fixed overhead and other costs [1]	**12**	21	**32**	42
Depreciation	**15**	7	**23**	14
Total	**$ 416**	$ 534	**$ 875**	$ 946

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

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Employee salary and benefits expense	**$ 3**	$ 4	**$ 8**	$ 8
Enterprise resource planning system [1]	**2**	6	**4**	10
Professional, consulting and legal fees	**2**	2	**4**	5
Share-based compensation [2]	**1**	—	**3**	—
Management fees [3]	**2**	1	**3**	2
Other [4]	**2**	2	**4**	2
Total	**$ 12**	$ 15	**$ 26**	$ 27

[1] Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.
[2] Refer to note 10 for details.
[3] Refer to note 22 for details.
[4] Includes corporate, public company and travel related expenses.

14. FINANCE COSTS

Finance costs are comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Accretion of employee benefit commitment	**$ 11**	$ 10	**$ 22**	$ 19
Remeasurement of employee benefit commitment [1]	**(9)**	157	**(16)**	161
Foreign exchange loss (gains)	**(4)**	1	**(10)**	1
Interest on loans and borrowings	**5**	2	**10**	4
Accretion expense related to finance lease obligations	**—**	—	**—**	1
Total	**$ 3**	$ 170	**$ 6**	$ 186

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 8 for further details.

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

15. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Finance income	**$ 1**	$ —	**$ 3**	$ —
Loss on commodity-based swaps	**—**	—	**—**	(10)
Other income	**1**	—	**2**	—
Total	**$ 2**	$ —	**$ 5**	$ (10)

Commodity-based swaps

During March 2018, Stelco entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. These swap contracts matured and settled during May 2018, with the Company realizing a loss of $10 million. Stelco did not enter these contracts for trading or speculative purposes.

16. INCOME TAXES

The major components of income tax expense for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Deferred income tax:				
Origination and reversal of temporary differences	**$ —**	$ (3)	**$ 11**	$ 5
Previously unrecognized deferred tax assets	**—**	3	**(11)**	(5)
Income tax expense	**$ —**	$ —	**$ —**	$ —

Reconciliation of Effective Tax Rate:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Income (loss) before income taxes	**$ 1**	$ (11)	**$ 44**	$ 18
Combined Canadian federal and provincial income tax rate	**25%**	25%	**25%**	25%
Income tax expense based on statutory rate	**—**	(3)	**11**	5
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Unrecognized deferred tax assets	**—**	3	**(11)**	(5)
Income tax expense	**$ —**	$ —	**$ —**	$ —

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

Deferred tax

Reconciliation of movements in the deferred tax asset as at:

As at	June 30, 2019	Movement	December 31, 2018
Non-capital and capital loss carry-forwards	**$ 87**	$ (8)	$ 95
Employee benefit commitment	**112**	(10)	122
Deductible SRED expenditures	**9**	—	9
Financing fee	**3**	—	3
Provisions	**2**	2	—
Impairment provision of investment in subsidiaries	**2**	—	2
Plant and equipment	**9**	3	6
Deferred tax assets not recognized	**(224)**	13	(237)
Net deferred tax asset	**$ —**	$ —	$ —

Non-capital loss carry forwards:

As at	June 30, 2019	December 31, 2018
2034	**102**	136
2035	**238**	238
2036	**—**	—
2037	**2**	2
2038	**4**	4
2039	**3**	—
Total	**$ 349**	$ 380

Other tax attributes

As at June 30, 2019, the Company has other tax attributes available for future use as deductions from taxable income, including but not limited to, undepreciated capital cost (UCC) of $504 million and scientific research and experimental development (SRED) deductions of $36 million.

The use of any remaining tax attributes is subject to the tax savings agreement entered into on completion of Stelco's CCAA reorganization on June 30, 2017, and dependent on realizing sufficient future taxable income within the carry forward period and satisfying applicable legislative provisions of the *Income Tax Act* (Canada) and associated regulations.

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

Six months ended June 30,		**2019**		2018
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**82**	$	(56)
Inventories		**(9)**		76
Prepaid expenses		**18**		(3)
Trade and other payables		**39**		40
Other liabilities		**(9)**		5
	$	**121**	$	62
Changes in other operating items:				
Provisions	**$**	**—**	$	1
Pension benefits		**2**		1
Employee benefit commitment		**(45)**		(32)
Foreign exchange and other		**(10)**		3
	$	**(53)**	$	(27)
Change in non-cash operating working capital and other operating items	**$**	**68**	$	35

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

Six months ended June 30,		**2019**		2018
Capital expenditures on property, plant and equipment:				
Plant and equipment additions	**$**	**103**	$	117
Property additions		**21**		—
Total additions		**124**		117
Additions not affecting cash:				
Land		**—**		(85)
Finance leases - infrastructure and equipment		**(6)**		(5)
Change in trade and other payables and other liabilities relating to construction in progress and other capital additions		**(1)**		—
Capital expenditures on property, plant and equipment	**$**	**117**	$	27

18. NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income per common share:

		Three months ended June 30,				Six months ended June 30,		
		2019		2018		**2019**		2018
Weighted average common shares outstanding (in thousands):								
Basic		**88,757**		88,814		**88,757**		88,814
Dilutive effect of outstanding common share options[1]		**—**		—		**—**		—
Diluted		**88,757**		88,814		**88,757**		88,814
Net income (loss) per common share:								
Basic	**$**	**0.01**	$	(0.12)	**$**	**0.50**	$	0.20
Diluted	**$**	**0.01**	$	(0.12)	**$**	**0.50**	$	0.20

[1] The dilutive effect of the Company's Option awards were calculated using the treasury stock method. The calculation of diluted weighted average common shares outstanding excludes 1.5 million Options for the three and six month periods ended June 30, 2019, as the exercise price of these Options was greater than the average market price of the Company's common shares for the respective periods.

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

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	June 30, 2019		December 31, 2018	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 277**	**$ 277**	$ 438	$ 438
Restricted cash	**10**	**10**	8	8
Trade and other receivables	**170**	**170**	252	252
Financial liabilities:				
Trade and other payables	**$ 401**	**$ 401**	$ 436	$ 436
Other liabilities	**57**	**57**	53	53
Obligations to independent employee trusts:				
Employee benefit commitment	**439**	**434**	478	469
Mortgage payable	**113**	**110**	113	107

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

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

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

The Company has no level 3 financial instruments. There were no transfers between level 1, level 2 or level 3 during the six months ended June 30, 2019.

20. CAPITAL MANAGEMENT

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

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

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

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

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

As at		June 30, 2019		December 31, 2018
Amounts drawn under inventory monetization arrangement	$	142	$	216
Amounts available under ABL facility		238		303
Total	$	380	$	519
Total equity		494		568
Total capital	$	874	$	1,087

21. COMMITMENTS AND CONTINGENCIES

Claims and litigation

The Company is involved in 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 (Loss), Statements of Comprehensive Income (Loss) or Statements of Cash Flows.

Purchase commitments

At June 30, 2019, the Company had future commitments of approximately $49 million in capital expenditures, with the majority expected to be paid within 2019.

22. RELATED PARTY TRANSACTIONS

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

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

	Three months ended June 30,				Six months ended June 30,			
		2019		2018		2019		2018
Purchases of services								
Joint ventures	$	6	$	4	$	10	$	8
Bedrock Industries B.V. and its affiliates		2		1		3		2

As at		June 30, 2019		December 31, 2018
Amounts payable to related parties				
Bedrock Industries B.V. and its affiliates	$	—	$	1
Joint ventures		2		—

Subsidiaries

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

Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the ESLT and the Board of Directors. The ESLT is comprised of the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel & Corporate Secretary of the Company.

For the three and six months ended June 30, 2019, the Company recorded $2 million and $5 million (three and six months ended June 30, 2018 - $1 million and $2 million), respectively, as an expense related to key management personnel salaries and benefits, share-based compensation, director fees, post-employment pension and medical and termination benefits.