SECOND QUARTER 2019
MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO HOLDINGS INC.

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

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Holdings Inc.'s (Stelco Holdings) results of operations and financial performance for the three and six months ended June 30, 2019 (Q2 2019). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Holdings and its consolidated subsidiaries, as applicable. This MD&A, which has been prepared as of August 13, 2019, should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three and six months ended June 30, 2019 (Consolidated Financial Statements) as well as the annual consolidated financial statements and MD&A for the year ended December 31, 2018 (2018 MD&A). The Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to the Company, including our 2018 Annual Information Form dated as of February 15, 2019 (2018 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. Readers are cautioned against relying or otherwise obtaining information in respect of the Company from sources other than from the Company's public filings on the SEDAR website.

KEY ASSUMPTIONS UNDERLYING OUR SHIPPING VOLUMES ESTIMATES FOR THE SECOND HALF OF 2019

The estimates with respect to our shipping volumes during the second half of 2019 referenced in this MD&A are based on a number of assumptions, including, but not limited to, the following material assumptions; the Company's ability to continue to access the U.S. market without any adverse trade restrictions; no significant additional legal or regulatory developments, changes in economic conditions, or macro changes in the competitive environment affecting our business activities; upgrades to existing facilities remaining on schedule and on budget and their anticipated effect on revenue and costs; the Company's ability to attract new customers and further develop and maintain existing customers; currency exchange and interest rates; the impact of competition; and growth in steel markets and industry trends. We note that: (i) potential further changes to trade regulations in the United States; (ii) a failure by Canada or the U.S. to ratify CUSMA; and/or (iii) the outcome of trade deliberations between the U.S. and China could materially alter underlying assumptions around our anticipated shipping volumes.

KEY ASSUMPTIONS UNDERLYING OUR COST REDUCTION ESTIMATES

The estimates with respect to anticipated results from our ongoing cost reduction initiatives included in this MD&A are based on a number of assumptions, including, but not limited to, the following material assumptions: the successful execution of the Company's cost reduction strategy by management; cost savings initiatives will be implemented in a manner that does not adversely affect the Company's ability to operate safely and sustainably and without impacting the Company's ability to ship products to customers as required; no unforeseen additional costs will be incurred by the Company in connection with implementing such cost savings items; there will be no change in governmental or industry regulations, including environmental regulations, trade matters, taxes or other regulatory initiatives that would result in increased costs on a net ton basis; the existing costs incurred by the Company in connection with the production and manufacture of steel products that are not targeted for cost-reduction will remain flat; the Company's anticipated growth and maintenance capital expenditures will not increase; the ability of the Company's suppliers and/or customers to accept price reductions or price increases, as applicable; upgrades to existing facilities remaining on schedule and on budget and their anticipated effect on revenue and costs; the Company's ability to reduce its reliance on contractors in a sustainable manner; improving production yields; enhancing utilization of secondary materials; maintaining positive employee and labour relations; currency exchange and interest rates; and growth in steel markets and industry trends.

KEY ASSUMPTIONS UNDERLYING OUR BLAST FURNACE PRODUCTION ESTIMATES

Future production estimates resulting from the completion of planned investments and upgrades to our Lake Erie Works blast furnace currently scheduled to commence in 2020 are based on a number of assumptions, including, but not limited to: the work undertaken in respect of the blast furnace reline will be conducted in a manner that will allow the blast furnace to produce increased volumes of molten metal without adversely affecting the stability or reliability of the furnace; the Company's ability to secure inputs and raw materials of a quality and quantity that supports increased molten metal production at favourable pricing terms; the Company's ability to attract new customers and further develop and maintain existing customers; no significant additional legal or regulatory developments, changes in economic conditions, or macro changes in the competitive environment affecting our business activities; no additional capital expenditures or other repairs to the blast furnace will be required in connection with the blast furnace reline, other than those currently contemplated; the Company's ability to process such additional volumes of molten metal in an efficient and cost effective manner without adversely affecting the Company's steelmaking assets; the blast furnace reline will be completed on time and within budget; the Company will have sufficient access to operators available to produce increased volumes in a safe and environmentally sustainable manner; the Company's ability to process and ship steel products manufactured as a result of the increased molten metal production; the Company's margin per net ton will increase as a result of fixed costs being spread over a greater volume of production; and that steel prices will generally support the ability of the Company to produce increased molten metal volumes profitably.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "*Business Overview"; "Strategy"*; "*Review of Quarterly Financial Results"*; "*Results of Operations"; "Capital Resources and Liquidity"*; and *"Risk and Uncertainties*" sections of this MD&A and in the "*Risk Factors"* section in the 2018 AIF.

Forward-looking information may relate to our future outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, plans and objectives of our Company. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as ''plans'', ''targets'', ''expects'', ''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 our production performance; expectations that our shipping volumes during the second half of 2019 will be in line with the same period of 2018; preparations in respect of a significant modernization of, and investment in, our LEW blast furnace currently scheduled for 2020; statements concerning our cost reduction initiatives; our ability to negotiate competitive freight rates and rapidly adapt to changing market environments; our ability to maintain financial security through a robust balance sheet; our ability to preserve our capital structure with low financial leverage; our ability to access debt and equity markets on terms favourable to the Company, as and when needed; our ability to operate successfully in diverse economic environments; expectations regarding increased domestic demand for our products as a result of existing Canadian trade measures; our ability to maximize total shareholder returns while maintaining a conservative capital structure; our ability to execute on the Company's four strategic objectives, namely: (i) optimizing production from our assets, (ii) maintaining our strong balance sheet, (iii) maximizing profitability and cash flows, and (iv) growing our business; our ability to regain higher margin business; our ability to introduce new products; our ability to grow our business through complimentary acquisitions and other investments to maximize shareholders returns; our ability to successfully pursue initiatives, such as, capturing, recycling, and selling by-products generated by our production process, and our expectation that any such initiatives can be implemented with limited investment to improve asset utilization; statements with respect to entering into a definitive agreement with ISED Canada (as hereinafter defined) concerning the Contribution (as hereinafter defined) and our understanding that we have settled substantially all of the terms of such an agreement with ISED Canada as at the date hereof; our intention and ability to pursue and complete capital projects in connection with the Contribution (as hereinafter defined); statements with respect to the application of the Contribution to such capital projects; our ability to fully capitalize on the Contribution and expectations that the funding commitment, and any capital projects in connection therewith, will allow us (i) increase research and development, (ii) facilitate growth and expansion, (iii) advance industrial research and technology, (iv) produce additional advanced steel products; (v) lower the Company's overall production costs; and/or (vi) improve the Company's environmental footprint; our ability to improve our product mix and successfully focus on more advanced steel products; statements with respect to the evaluation and design of a co-generation facility at LEW (as hereinafter defined) and expectations that any such facility will be completed or, if completed, would lower the Company's overall power consumption costs; statements with respect to amounts available under our asset-based lending facility and inventory monetization arrangement, together with cash generated from operations and additional liquidity provided by the RPA (as hereinafter defined) being sufficient to meet our future operating expenses, capital expenditures, future debt services costs, and expectations that such amounts will be sufficient to support the growth of our business (primarily through working capital and capital expenditures), while also allowing the Company to repay short-term obligations and support general corporate purposes; the Company's position to grow organically; expectations regarding the Company's recently completed batch annealing and temper mill facility and anticipated demand from customers with respect to advanced steel products produced by the new production facility; expectations regarding significant capital projects, including, the repair to the LEW coke oven facilities and planned maintenance to the LEW hot strip mill; expectations regarding utilization of excess capacity; expectations regarding upgrades to existing facilities and their effect on revenue and costs; expectations regarding ongoing North American trade relations and the ratification of CUSMA; expectations that CUSMA will result in a tariff-free North American market for our products; expectations that Section 232 measures will not be reintroduced by the U.S. government and that any import surge mechanism negotiated among North American governments does not have a material adverse impact on the Company; expectations that the recent executive announcement by the U.S. government regarding specified domestic steel content requirements in U.S. infrastructure projects does not have a material adverse impact on the Company; statements with respect to recent announcements by the Government of Canada concerning regulatory amendments and policy changes, which are expected to improve the effectiveness and transparency of Canada's trade remedy system; 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 with respect to the existing trade restrictions; 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 the resulting impact; and statements regarding the impact of the steel import tariffs.

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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Business Overview

Stelco Holdings is the parent company of Stelco Inc., one of Canada's leading steel producers, and is listed on the Toronto Stock Exchange (TSX) under the symbol 'STLC'. Stelco Holdings was incorporated on September 25, 2017 under the *Canada Business Corporations Act* and is based in Hamilton, Ontario, Canada.

Stelco Holdings completed an initial public offering on November 10, 2017 and acquired all outstanding shares of Stelco Inc. from Bedrock Industries B.V. (Bedrock B.V.), a wholly-owned indirect subsidiary of Bedrock Industries LP (Bedrock). Bedrock B.V. continues to be Stelco Holdings' largest shareholder, currently owning approximately 46.4% of the issued and outstanding common shares.

Overview

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) was established in 1910 and is primarily engaged in the production and sale 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, fully processed annealed cold-rolled sheet 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 steel service centre, construction, automotive, energy and appliance 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, 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 and a batch anneal and temper mill. HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled full hard, fully processed annealed cold-rolled sheet, 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 (Section 232)

On May 17, 2019, Canada and the United States issued a joint statement agreeing to eliminate tariffs on steel and aluminum effective May 20, 2019. Tariffs imposed by the United States under Section 232 had been in place since June 1, 2018. Canada imposed retaliatory measures on steel and other product imports from the United States on July 1, 2018.

As a result of the understanding between the two countries, neither Canadian importers of steel from the United States, nor US importers of steel from Canada are required to pay tariffs or surtaxes pursuant to these measures. The understanding also incorporates the development of a process for monitoring import surges beyond historical volumes of aluminum and steel between Canada and 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 current US administration's trade measures.

Trade Remedy Measures

We also 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. We also continue to advocate for improvements to both domestic and international trade law with the intent of improving stability in both domestic and international markets.

On July 19, 2019, the Government of Canada announced regulatory and policy changes intended to improve the effectiveness and transparency of Canada's trade remedy system. In connection with these changes, the Canada Border Services Agency (CBSA) is expected to update its policy to allow anti-dumping levels to be reviewed more frequently, which may provide the Canadian steel industry with more effective and up-to-date protection in the face of changing market circumstances. The CBSA and Global Affairs Canada are also expected to take steps to enhance the verification of steel import data. In addition, the Government of Canada has introduced regulatory amendments which are intended to provide the CBSA with greater flexibility when calculating appropriate levels of anti-dumping duties in circumstances in which price distortions may be involved.

These measures are the result of a consultation process with industry producers and workers launched by the Government of Canada on April 26, 2019, to determine ways to improve Canada's trade remedy and import monitoring regimes. The government has committed to continued consultation with the steel industry and workers regarding additional improvements to Canada's trade remedy system.

Canada, United States, Mexico Trade Agreement (CUSMA)

On September 30, 2018, Canada, the United States and Mexico tentatively agreed on a revised trade agreement to replace the North American Free Trade Agreement (NAFTA) with the goal of modernizing and reinforcing strong economic ties between the three countries while supporting businesses and workers within North America. The CUSMA 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.

CUSMA was signed on November 30, 2018, and with the removal of steel and aluminum tariffs has helped to create a clearer path for ratification of CUSMA, which is currently subject to the approval of the Canadian and U.S. legislatures prior to taking effect. Until such time as CUSMA is ratified, NAFTA continues to be operative trade agreement amongst the three North American counties.

Although the ratification of CUSMA and its impact on the Canadian economy has not been fully realized, 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.

Common Share Special Dividends

On February 15, 2019, the board of directors (Board of Directors) of Stelco Holdings declared a special dividend of $1.13 per common share, paid on March 20, 2019, to shareholders of record as of March 13, 2019. This special cash dividend represented excess cash from operations arising from the Company's positive financial performance during the second half of 2018.

Refer to *'Share Capital - Common Share Dividends'* section in the MD&A for further details.

Organization Change

Effective February 20, 2019, the Board of Directors appointed David Cheney to the position of Chief Executive Officer of the Company. Alan Kestenbaum has continued in his role as Executive Chairman and oversees all aspects of the Company, while increasing his focus on all areas of corporate growth, strategic planning, and maximizing shareholder returns. Mr. Cheney has executive responsibility for all aspects of the Company's day-to-day business.

Innovation, Science and Economic Development Canada Funding Commitment

On August 13, 2019, the Company announced that it had settled the terms of a funding commitment from Innovation, Science and Economic Development Canada (ISED Canada) of up to $49.9 million (the Contribution). The Contribution is being made available to the Company under the Strategic Innovation Fund, which was designed by the Government of Canada to, among other things, encourage research and development in Canada, facilitate growth and expansion of firms, and advance industrial research and technology. The ultimate amount of the Contribution that the Company will receive is dependent upon qualified expenditures made by the Company in connection with certain capital projects, as agreed with ISED Canada. Management believes that investment in these capital projects will allow the Company to produce additional advanced steel products, lower its overall production costs and improve its environmental footprint. Subject to the terms of the funding agreement with ISED Canada, fifty percent (50%) of the Contribution is non-refundable and the remainder is a non-interest-bearing loan, which is repayable over an eight-year period beginning January 1, 2024.

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 six strategic objectives: (i) operating safely and sustainability (ii) expanding and serving our customer base (iii) optimizing production from our assets; (iv) maintaining our strong balance sheet; (v) maximizing profitability and cash flows; and (vi) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins our return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock B.V.'s significant ownership interest in the Company, 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.

Operate Safely and Sustainability

Our business upholds a social contract with both our employees and the communities in which we operate. The health and safety of our employees is always at the core of our strategy, and we believe that a job done safely, is a job well done. Going forward, we intend to build on our success in this area and continue to focus on ensuring each and every employee returns home safely each and every day - something we have been proud to accomplish for the past twenty months without a days away from work incident. We also intend to continue investing in our facilities to reduce our carbon footprint and improve the environmental sustainability of our operations. Through investments in research and development as well as emerging technologies, we intend to reduce emissions, improve efficiency, and in turn generate positive returns for our valued stakeholders.

Expand and Serve our Customer Base

We remain committed to serving our customers through strategic investments, expanding our current steel products we offer, and delivering those products more efficiently through improved logistics capabilities. We expect to continue working closely with our customer base to identify and develop the next generation of steel products to serve both their needs and those of the end users of our products.

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, 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 other pension employee benefits. Further, we have approximately $889 million of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at June 30, 2019, 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. We believe that the Company’s improved financial position has removed a major roadblock 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.

Non-IFRS Performance Measures

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

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

Adjusted Net Income

In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada, we have modified the definition of Adjusted Net Income to include tariff and tariff related costs as a non-recurring item adjustment from earnings. The prior periods have been restated to reflect this change in presentation.

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) restructuring and other costs, (iv) separation costs related to United States Steel Corporation (USS) support services, (v) property related idle costs included in cost of goods sold, (vi) share-based compensation, (vii) carbon taxes, (viii) tariff and tariff related costs, and (ix) batch annealing facility startup related costs. 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

In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada, we have modified the definition of Adjusted EBTIDA to include tariff and tariff related costs as a non-recurring item adjustment from earnings. Previously, management used Tariff Adjusted EBITDA as a measure of financial performance of the Company without the impact of tariff and tariff related costs under the Section 232 tariffs. Going forward, Tariff Adjusted EBITDA and Tariff Adjusted EBITDA per nt will no longer be used by management and disclosed in the Company's MD&A. The prior periods have been restated to reflect this change in presentation.

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) restructuring and other costs, (iii) separation costs related to USS support services, (iv) property related idle costs included in cost of goods sold, (v) share-based compensation, (vi) carbon taxes, (vii) tariff and tariff related costs, and (viii) batch annealing facility startup related costs. 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 is a non-cash expense. Adjusted EBITDA also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company, Adjusted EBITDA is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA per net ton

We monitor Adjusted EBITDA per nt, defined as Adjusted EBITDA (defined above) divided by Shipping Volume (defined below), as a key indicator of performance during the period. Generally, Adjusted EBITDA per nt is used by management, investors, and analysts to measure profitability on a per 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.

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. 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 information for the period as indicated:

(millions of Canadian dollars, except where otherwise noted)	Three months ended June 30, **2019**	Three months ended June 30, 2018	Six months ended June 30, **2019**	Six months ended June 30, 2018
Financial results				
Total revenue	**$ 431**	$ 711	**$ 948**	$ 1,193
Gross profit	**15**	177	**73**	247
Selling, general and administration expenses	**12**	15	**26**	27
Net income (loss)	**1**	(11)	**44**	18
Adjusted net income [1]	**6**	165	**66**	215
Adjusted EBITDA [1]	**32**	185	**108**	254
Per common share (diluted)				
Net income (loss)	**$ 0.01**	$ (0.12)	**$ 0.50**	$ 0.20
Adjusted net income [1]	**$ 0.07**	$ 1.86	**$ 0.74**	$ 2.42
Common shareholder dividends	**$ 0.10**	$ 0.10	**$ 1.33**	$ 0.20
Operating Results				
Selling price per nt (in dollars per nt) [1]	**$ 761**	$ 898	**$ 796**	$ 837
Adjusted EBITDA per nt (in dollars per nt) [1]	**59**	247	**93**	187
Shipping volumes (in thousands of nt)	**545**	748	**1,157**	1,361
Hot-rolled	**375**	590	**892**	1,081
Coated	**67**	93	**133**	177
Cold-rolled	**19**	33	**23**	48
Other [2]	**84**	32	**109**	55

As at	**June 30, 2019**	December 31, 2018
Financial position		
Total assets	**$ 1,513**	$ 1,655
Total non-current liabilities	**498**	508

1 The definition and reconciliation of these non-IFRS measures are included in the '*Non-IFRS Performance Measures*' and '*Review of Non-IFRS Measures*' sections of this MD&A.
2 Includes other steel products: slabs and non-prime steel inventory.

Review of Quarterly Financial Results

For the second quarter of 2019, Stelco realized net income of $1 million compared to a net loss of $11 million for the same period during 2018, representing an improvement of $12 million which is primarily due to the net effect of the following:

- $162 million decrease in gross profit, from $280 million lower revenue from sale of goods partly offset by $118 million decrease in cost of goods sold; more than offset by
- $167 million lower finance costs;
- $2 million increase in finance and other income;
- $3 million lower selling, general and administrative expenses; and
- $2 million decrease in restructuring and other costs.

For the first six months of 2019, Stelco realized net income of $44 million compared to net income of $18 million for the same period during 2018, representing an increase of $26 million which is primarily due to the net effect of the following:

- $174 million decrease in gross profit, from $245 million lower revenue from sale of goods partly offset by $71 million decrease in cost of goods sold; more than offset by
- $180 million lower finance costs;
- $15 million gross increase in finance and other income; and
- $5 million decrease in restructuring and other costs.

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.

Q2 2019

Revenue decreased by $280 million or 39%, from $711 million in Q2 2018 to $431 million in Q2 2019, primarily due a general decrease in the market price of steel and lower shipping volumes. Selling price per nt decreased by $137 per nt, from $898 per nt in Q2 2018 to $761 per nt in Q2 2019. Our shipping volumes decreased to 545 thousand nt from 748 thousand nt for Q2 2018. The sales product mix of our hot-rolled, coated and other steel products represented approximately 69%, 12% and 15%, respectively, of the total sales volume for Q2 2019, whereas in Q2 2018 it was approximately 79%, 12% and 4%, respectively. The increase in our other steel product shipments of 52 thousand nt or 163% to 84 thousand nt for Q2 2019 compared to 32 thousand nt for the same period in 2018, was primarily due to slab sales during the period. Also impacting revenue for the quarter was non-steel sales which decreased $23 million, from $39 million in the second quarter of 2018 to $16 million during the same period in 2019, mostly due to less metallurgical coke sales.

YTD 2019

Revenue decreased by $245 million or 21%, from $1.2 billion in 2018 to $948 million in 2019, primarily due a general decrease in the market price of steel and lower shipping volumes. Selling price per nt decreased by $41 per nt, from $837 per nt in 2018 to $796 per nt in 2019. Our shipping volumes decreased to 1.2 million nt from 1.4 million nt for 2018. The sales product mix of our hot-rolled, coated and other steel products represented approximately 77%, 11% and 9%, respectively, of the total sales volume for 2019, whereas in 2018 it was approximately 79% and 13% and 4%, respectively. Also impacting revenue for the year was non-steel sales which decreased $27 million, from $54 million in 2018 to $27 million during 2019, primarily due to lower metallurgical coke sales.

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.

Q2 2019

Gross profit decreased by $162 million, from $177 million in Q2 2018 to $15 million in Q2 2019 mainly due to lower revenue of $280 million for the period as discussed above, partly offset by less cost of goods sold of $118 million. The decrease in cost of goods sold was mainly attributed to lower shipping volumes and tariff related costs, partly offset by higher depreciation expense recorded during the quarter. During Q2 2019, the US administration announced effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada. The Company incurred approximately $7 million of tariff related charges during Q2 2019 compared to $11 million for Q2 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.

YTD 2019

Gross profit decreased by $174 million, from $247 million in 2018 to $73 million in 2019 mainly due to lower revenue of revenue of $245 million for the year as discussed above, partly offset by less cost of goods sold of $71 million. The decrease in cost of goods sold was mainly attributed to lower shipping volumes, partly offset by higher depreciation expense, carbon taxes and tariff related costs recorded during the period. The Company incurred approximately $20 million of tariff related charges during 2019 compared to $11 million for 2018.

Selling, general and administrative expenses

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2019**	2018	**2019**	2018
Employee salary and benefits expense	**$ 3**	$ 4	**$ 8**	$ 8
Enterprise Resource Planning (ERP) [1]	**2**	6	**4**	10
Professional, consulting and legal fees	**2**	2	**4**	5
Share-based compensation	**1**	—	**3**	—
Management fees	**2**	1	**3**	2
Other [2]	**2**	2	**4**	2
	$ 12	$ 15	**$ 26**	$ 27

1 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.

2 Includes corporate, public company and travel related expenses.

Q2 2019

SG&A expenses for the three months ended June 30, 2019 primarily includes the following: $3 million in corporate and administrative employee salaries and benefits, $2 million in ERP implementation expenses relating to the separation from USS, $2 million in professional, consulting and legal fees, $1 million in share-based compensation expense, and $2 million in management fees related to an affiliate of Bedrock B.V.

YTD 2019

SG&A expenses for 2019 primarily includes the following: $8 million in corporate and administrative employee salaries and benefits, $4 million in ERP implementation expenses relating to the separation from USS, $4 million in professional, consulting and legal fees, $3 million in share-based compensation expense, and $3 million in management fees related to an affiliate of Bedrock B.V.

On January 10, 2019, Stelco Holdings granted and issued 1.5 million share options to certain members of the Company's executive management, with two-thirds of the share option awards vesting on January 10, 2020, and the remaining one-third vesting on January 10, 2021. For the three and six months ended June 30, 2019, the Company recorded an expense of $1 million and $3 million in connection with these share options. Refer to note 10 of the Consolidated Financial Statements for further details.

Stelco completed the initial phase of the conversion to a new ERP system during October 2018, with the remaining phases of the ERP implementation expected to be substantially complete during the second half of 2019.

Finance costs

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2019**	2018	**2019**	2018
Accretion of employee benefit commitment	**$ 11**	$ 10	**$ 22**	$ 19
Remeasurement of employee benefit commitment	**(9)**	157	**(16)**	161
Foreign exchange (gain) loss	**(4)**	1	**(10)**	1
Interest on loans and borrowings	**5**	2	**10**	4
Accretion on financial lease obligations	**—**	—	**—**	1
	$ 3	$ 170	**$ 6**	$ 186

Q2 2019

Finance costs decreased by $167 million or 98%, from $170 million in Q2 2018 to $3 million in Q2 2019, primarily due to the following: $166 million gross remeasurement recovery associated with our employee benefit commitment, $5 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital, partly offset by a $3 million increase in interest on loans and borrowings and $1 million higher accretion expense associated with our employee benefit commitment obligation.

During Q2 2019, the Company recorded a $9 million remeasurement recovery in connection with a change of estimate related to the timing and magnitude of estimated cash flows and future funding requirements of the employee benefit commitment which are revisited at each balance sheet date to determine the carrying amount of 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 8 of the Consolidated Financial Statements for further details.

During the second quarter of 2018, Stelco Inc. entered into an amended other post-employment benefit (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 Inc.'s CCAA reorganization, with an increased fixed funding commitment over a 25 year term. In connection with the Amended OPEB Funding Agreement, Stelco incurred a remeasurement charge of $157 million during Q2 2018, 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.

Interest on loans and borrowings increased $3 million compared to Q2 2018, primarily due to higher interest costs associated with Stelco's mortgage note issued during June 2018 as consideration for the acquisition of land and buildings from Legacy Lands Limited Partnership (Land Vehicle).

YTD 2019

Finance costs decreased by $180 million or 97%, from $186 million in 2018 to $6 million in 2019, primarily due to the following: $177 million gross remeasurement recovery on our employee benefit commitment mostly due to the impact from the Amended OPEB Funding Agreement discussed above, $11 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital, and $1 million lower accretion on financial lease obligations, partly offset by a $6 million increase in interest on loans and borrowings and $3 million higher accretion expense associated with our employee benefit commitment obligation.

In addition to the Q2 2018 $157 million remeasurement charge discussed above, during March 2018, the Company paid a $20 million advance contribution pursuant to the employee benefit commitment agreement, that was originally estimated as at December 31, 2017 to be paid during the year 2020. As a result of this accelerated payment and the impact to the present value of the employee benefit commitment, the Company recognized an increase of $4 million to the liability with a corresponding increase in finance costs on the Consolidated Statement of Income.

Finance and other income (loss)

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

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

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.

Review of Non-IFRS Measures

Adjusted net income

The following table provides a reconciliation of net income (loss) to adjusted net income:

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2019**	2018	**2019**	2018
Net income (loss)	**$ 1**	$ (11)	**$ 44**	$ 18
Add back/(Deduct):				
Remeasurement of employee benefit commitment [1]	**(9)**	157	**(16)**	161
Tariff related costs [2]	**7**	11	**20**	11
Separation costs related to USS support services [3]	**2**	6	**7**	10
Carbon tax expense [4]	**—**	—	**3**	—
Restructuring and other costs [5]	**2**	2	**2**	5
Share-based compensation [6]	**1**	—	**3**	—
Property related idle costs included in cost of goods sold [7]	**1**	—	**2**	—
Batch annealing facility startup related costs [8]	**1**	—	**1**	—
Loss from commodity-based swaps	**—**	—	**—**	10
Adjusted net income	**$ 6**	$ 165	**$ 66**	$ 215

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

2 Includes tariff and tariff related costs associated with U.S. bound steel shipments. In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada, the Company has modified the definition of Adjusted Net Income and Adjusted Net Income per common share to include tariff and tariff related costs as a non-recurring item adjustment from earnings. The prior periods have been restated to reflect the change in presentation. Refer to *'Non-IFRS Performance Measures'* section in this MD&A for further details.

3 Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.

4 Represents a non-cash carbon tax provision for the period, connected to Stelco's estimated requirements under the Greenhouse Gas Pollution Pricing Act (Federal Backstop) for industrial facilities with greenhouse gas emissions. Actual cash payments related to the carbon taxes, if any, are not expected to occur until the year 2020 at the earliest.

5 Restructuring and other costs includes certain non-routine items that include, but are not limited to, building demolition costs, professional fees and travel related expenses. For 2018, restructuring costs include legal fees and other costs connected to Stelco's emergence from CCAA proceedings.

6 Share-based compensation consists of costs connected with share options awarded to certain members of the Company's executive senior leadership team during the period.

7 Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.

8 Represents incremental employee training and other costs connected with Stelco's new batch annealing facility that was completed during Q2 2019 and commenced operations during June 2019. Refer to *'Results of Operations'* section of this MD&A for further details.

Q2 2019

Adjusted net income for the quarter was $6 million compared to $165 million for Q2 2018 representing a decrease of $159 million which is primarily due to the following:

- $164 million decrease in gross profit (adjusted for lower tariff related costs of $4 million, partly offset by higher property related idle costs included in cost of goods sold of $1 million and batch annealing facility startup costs of $1 million); partly offset by
- $2 million decrease in selling, general and administrative expenses (adjusted for a decrease in separation costs related to USS support services of $4 million, partly offset by restructuring and other costs of $2 million, and share-based compensation of $1 million);

- $2 million increase in finance and other income; and
- $1 million lower finance costs (adjusted for a gross decrease in remeasurement recovery from the employee benefit commitment of $166 million).

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

YTD 2019

Adjusted net income for the period was $66 million compared to $215 million for 2018 representing a decrease of $149 million which is primarily due to the following:

- $156 million decrease in gross profit (adjusted for higher tariff related costs of $9 million, carbon tax expense of $3 million, separation costs related to USS support services of $3 million recorded in cost of goods sold, higher property related idle costs included in cost of goods sold of $2 million and batch annealing facility startup costs of $1 million); partly offset by
- $5 million increase in finance and other income (adjusted for first quarter of 2018 loss from commodity-based swaps of $10 million); and
- $3 million lower finance costs (adjusted for an increase in remeasurement recovery from the employee benefit commitment of $177 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 (loss) to Adjusted EBITDA for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars, except where otherwise noted)	**2019**	2018	**2019**	2018
Net income (loss)	**$ 1**	$ (11)	**$ 44**	$ 18
Add back/(Deduct):				
Finance income	**(1)**	—	**(3)**	—
Depreciation	**15**	7	**23**	14
Tariff related costs [1]	**7**	11	**20**	11
Separation costs related to USS support services [2]	**2**	6	**7**	10
Finance costs	**3**	170	**6**	186
Share-based compensation [3]	**1**	—	**3**	—
Carbon tax expense [4]	**—**	—	**3**	—
Restructuring and other costs [5]	**2**	2	**2**	5
Property related idle costs included in cost of goods sold [6]	**1**	—	**2**	—
Batch annealing facility startup related costs [7]	**1**	—	**1**	—
Loss from commodity-based swaps	**—**	—	**—**	10
Adjusted EBITDA	**$ 32**	$ 185	**$ 108**	$ 254
Adjusted EBITDA as a percentage of total revenue	**7%**	26%	**11%**	21%

1 Includes tariff and tariff related costs associated with U.S. bound steel shipments. In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada, we have modified the definition of Adjusted EBTIDA and Adjusted EBITDA per nt to include tariff and tariff related costs as a non-recurring item adjustment from earnings. The prior periods have been restated to reflect the change in presentation. Refer to *'Non-IFRS Performance Measures'* section in this MD&A for further details.

2 Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.

3 Share-based compensation consists of costs connected with share options awarded to certain members of the Company's executive senior leadership team during the period.

4 Represents a non-cash carbon tax provision for the period, connected to Stelco's estimated requirements under the Greenhouse Gas Pollution Pricing Act (Federal Backstop) for industrial facilities with greenhouse gas emissions. Actual cash payments related to the carbon taxes, if any, are not expected to occur until the year 2020 at the earliest.

5 Restructuring and other costs includes certain non-routine items that include, but are not limited to, building demolition costs, professional fees and travel related expenses. For 2018, restructuring costs include legal fees and other costs connected to Stelco's emergence from CCAA proceedings.

6 Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.

7 Represents incremental employee training and other costs connected with Stelco's new batch annealing facility that was completed during Q2 2019 and commenced operations during June 2019. Refer to *'Results of Operations'* section of this MD&A for further details.

Q2 2019

Adjusted EBITDA for the quarter was $32 million compared to $185 million for Q2 2018 representing a decrease of $153 million which is primarily due to the following:

- $156 million decrease in gross profit (adjusted for higher depreciation expense of $8 million, property related idle costs of $1 million and batch annealing facility startup costs of $1 million, partly offset by lower tariff related costs of $4 million); and

- $2 million increase in selling, general and administrative expenses (adjusted for a decrease in separation costs related to USS support services of $4 million, partly offset by restructuring and other costs of $2 million and share-based compensation of $1 million).

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

YTD 2019

Adjusted EBITDA for the period was $108 million compared to $254 million for 2018 representing a decrease of $146 million which is primarily due to a $147 million decrease in gross profit (adjusted for higher depreciation expense of $9 million, an increase in tariff related costs of $9 million, carbon tax expense of $3 million, separation costs related to USS support services of $3 million recorded in cost of goods sold, higher property related idle costs of $2 million and batch annealing facility startup costs of $1 million).

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

Review of Balance Sheets

The following table provides selected balance sheet information as indicated:

(millions of Canadian dollars)		**June 30, 2019**		December 31, 2018
Cash and cash equivalents	**$**	**277**	$	438
Trade and other receivables		**170**		252
Inventories		**466**		468
Property, plant and equipment		**569**		448
Total assets	**$**	**1,513**	$	1,655
Trade and other payables		**401**		436
Other liabilities		**57**		53
Obligations to independent employee trusts		**552**		591
Total liabilities		**1,019**	$	1,087
Total equity	**$**	**494**	$	568

As reflected in the selected balance sheet information above, between December 31, 2018 and June 30, 2019, the Company's trade and other receivables decreased from $252 million to $170 million (a reduction of $82 million or 33%), reduced trade and other payables from $436 million to $401 million (a reduction of $35 million or 8%), increased other liabilities from $53 million to $57 million (an increase of $4 million or 8%), reduced total liabilities from $1,087 million to $1,019 million (a reduction of $68 million or 6%), and reduced total equity from $568 million to $494 million (a reduction of $74 million or 13%).

During June 2019, Stelco Inc. entered into a Receivables Purchase Agreement (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 and requires that Stelco Inc. administer and process in the collection of receivables and remit those collections to the Purchaser. During the three months ended June 30, 2019, Stelco Inc. received cash proceeds of $94 million under the RPA and 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.

Property, plant and equipment increased to $569 million at June 30, 2019 from $448 million at December 31, 2018, mainly due to the following: capital expenditures of $124 million, spare parts reclassified as equipment of $11 million and an IFRS 16 - *Leases* adoption adjustment of $9 million, partly offset by depreciation expense of $23 million for the period.

Our capital expenditures for the period include costs related to normative and growth projects at our blast furnace, hot strip mill, batch annealing facility and other capital assets relating to operations. During May 2019, Stelco Inc. completed the acquisition of certain land parcels and buildings (collectively the Remaining Lands) adjacent to Stelco's Hamilton Works operation for a total cash purchase price of $21 million, which includes $0.5 million in transaction costs. The acquisition of the Remaining Lands completes the Company's repurchase of all Hamilton Works lands which were previously sold to Legacy Lands Limited Partnership prior to Stelco Inc.'s emergence from the C*ompanies' 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 that was granted by the Ministry of the Environment, Conservation and Parks on closing of the CCAA reorganization.

Spare parts reclassified as equipment during the period included items that contained capital attributes including, but not limited to, future benefit to the Company for a period greater than 12 months. The Company adopted IFRS 16 - *Leases* on January 1, 2019, which resulted in an adjustment to property, plant and equipment due 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 note 2 of the Consolidated Financial Statements for further details of IFRS 16 - *Leases* and its impact to the Company's Consolidated Financial Statements.

During the first half of 2019, the Company repaid approximately $65 million net of the amounts drawn under the inventory monetization arrangement. Changes in the carrying amounts are primarily repayments related to receipts and consumption of raw materials by the Company monetized under this arrangement, in addition to the impacts from foreign exchange. As at June 30, 2019, amounts drawn under this arrangement amounted to $142 million compared to $216 million as at December 31, 2018 and are recorded within trade and other payables.

The obligations to independent employee trusts decreased from $591 million at December 31, 2018 to $552 million at June 30, 2019 primarily due a $39 million decrease in the employee benefit commitment, consisting of cash payments of $45 million to the employee life and heath trusts (ELHTs) which includes variable payments associated with free cash flow and tax savings realized by Stelco Inc. during prior periods, and a remeasurement recovery of $16 million recorded in finance costs during the first half of 2019, partly offset by accretion expense of $22 million. Refer to *'Review of Quarterly Results - Finance Costs'* section of 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 June 30, 2019, can shield pre-tax income of approximately $889 million (or approximately $222 million on an after tax basis) from taxation. These tax attributes include non-capital loss carry forwards of $349 million ($87 million after tax), undepreciated capital cost deductions (UCC) of $504 million ($126 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 Inc. and form part of future deposits into the ELHTs, which tax attributes remain subject to the tax savings agreement entered into on completion of Stelco Inc.'s CCAA reorganization on June 30, 2017. 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) Six months ended June 30,	**2019**	2018
Cash and cash equivalents, beginning of period	**$ 438**	$ 250
Cash provided by (used in):		
Operating activities	**146**	246
Investing activities	**(119)**	(25)
Financing activities	**(188)**	(50)
Cash and cash equivalents, end of period	**$ 277**	$ 421

Cash provided by Operating Activities

For the first half of 2019, cash provided by operating activities totaled $146 million compared to $246 million for the same period of 2018. Cash provided by operating activities for the period was impacted by lower gross profit primarily due to lower revenue from sale of goods, partly offset by a decrease in cost of goods sold. Partly offsetting the impact of lower gross profit, was higher cash provided by working capital and other operating activities (net), in particular from the timing of cash receipts from trade receivables in connection with the RPA entered with a Schedule II bank during June 2019, partly offset by the timing of cash disbursements and receipts of inventory and employee benefit commitment related items compared to the same period in 2018.

Refer to *'Review of Balance Sheets'* section of this MD&A for further discussion of the RPA.

Cash used in Investing Activities

For the six months ended June 30, 2019, cash used in investing activities totaled $119 million compared to $25 million for the same period of 2018. Cash used in investing activities for 2019 included capital expenditures of $117 million primarily related to normative and growth projects at our blast furnace, hot strip mill, batch annealing facility and other capital assets relating to operations. During May 2019, Stelco Inc. completed the acquisition of certain land parcels and buildings adjacent to Stelco's Hamilton Works operation for an aggregate cash purchase price of $21 million. Also, included in the cash used in investing activities was a $2 million increase in restricted cash.

Refer to *'Review of Balance Sheets'* section of this MD&A for further discussion of the acquisition of land and buildings during the period.

Cash used in Financing Activities

For the first half of 2019, cash used in financing activities totaled $188 million which includes $118 million in dividends paid to common shareholders, inventory monetization arrangement payments of $65 million net; and asset-based lending facility draws and repayments of $51 million and $51 million, respectively, and lease obligation principal repayments of $5 million during the period.

Results of Operations

For the second quarter of 2019, Stelco experienced general pricing and shipping volume decreases across its key products, including hot-rolled, cold-rolled and coated products, compared to the same period in 2018. Our steel selling prices 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. Although our Q2 2019 shipping volumes decreased compared to the first quarter of 2019, we expect that our shipping volumes during the second half of 2019 will be in line with the same period of 2018 of approximately 1.3 million nt, subject to timing differences between the third and fourth quarters of 2019.

In June 2019, Stelco Inc. announced the completion of the construction of a state-of-the-art batch annealing facility and commencement of shipments of fully processed, annealed cold-rolled steel sheet during the period. The restart of a modernized and upgraded temper mill, along with installation of new annealing furnaces, will allow Stelco Inc. to add a full range of up to 200,000 net tons of fully processed cold-rolled steel to its product mix. With completion of this project, Stelco Inc. will now be able to increase service to markets that demand these high-quality products such as the automotive, appliance and service centre markets, as well as the pre-painted steel market for architectural applications. These products have historically realized higher prices than the full-hard cold-rolled products previously offered by Stelco Inc. and represent a continued expansion of product capabilities to enhance tactical flexibility and meet the needs of our customers.

Also during the second quarter of 2019, Stelco reached an agreement with DTE Energy Services, Inc. (DTE) as its exclusive development partner to pursue the further development of a strategic co-generation project at Stelco's Lake Erie facility in Nanticoke, Ontario. The partnership between Stelco Inc. and DTE represents an important next step towards the construction and commissioning of co-generation capacity that will serve to reduce the Company's costs by utilizing excess industrial gases and reducing exposure to peak electricity pricing. DTE has been engaged to conduct detailed design, engineering and development services to pursue the next phase of the co-generation project. The co-generation project remains in the early stages of technical development. There can be no assurance that the Company will be able to reach a suitable arrangement with the applicable government agencies to achieve a successful outcome.

Stelco continues to focus on improving reliability and efficiency at our hot strip mill with enhancements planned for the remainder of 2019 and into 2020. 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. In connection with Stelco's continued focus on identifying operating efficiencies and generating returns for our shareholders, the Company continues to execute initiatives to achieve a sustainable annual run rate cost reductions of up to $50 million over the next several ensuing quarters, which represents approximately $20 per net ton in cost savings on an annual steel sales volume of 2.5 million net tons. The cost savings is expected to be realized through a variety of initiatives including reduction of contractors, improved yields, enhanced utilization of secondary materials, and other identified cost savings opportunities.

We are continuing to prepare for a further investment in our LEW blast furnace, with modernizing upgrades and investments currently scheduled for 2020. These planned investments include a full reline of the brick refractory in the blast furnace along with the replacement of major components and other hardware to extend the life of the blast furnace by fifteen to twenty years. The expected cost of this overhaul project is anticipated to be approximately $100 million and, upon completion, is expected to increase the annual production capacity of the blast furnace by approximately 300,000 net tons of molten metal above our current production levels.

The Company is also proceeding with a significant maintenance project on our LEW coke ovens to upgrade the coke oven end flues, which commenced during the third quarter of 2019 and is expected to continue for approximately twelve months at an anticipated cost of approximately $80 million through to completion.

During June 2019, subsequent to the acquisition of the Remaining Lands discussed further in the *'Review of Balance Sheet'* section of this MD&A, we entered into a ten year building lease with one of our largest steel customers for 125,000 square feet of space at our Remaining Lands, which the lease commences in May 2020. Utilizing our available real estate assets to better serve our customers while increasing returns from our real estate investment, continues to demonstrate the Company's focus on optimizing our assets and maximizing profitability and cash flows for our shareholders.

As previously noted, 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. 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, ELHT 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, accounts receivable purchase arrangement, and inventory monetization arrangement, and through public offerings of debt and common equity 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. During 2019, the Company has maintained a balanced overall working capital position and continues to experience favourable payment terms with its vendors, directly impacting its working capital without the need for additional funding.

As at June 30, 2019, the Company had the following sources of liquidity available:

- $277 million in cash;
- $238 million available under the asset-based lending facility;
- the inventory monetization arrangement continues to provide Stelco Inc. liquidity on certain of its raw material purchases; and
- the Receivables Purchase Agreement with a Schedule II bank provides Stelco Inc. with improved liquidity on certain customers' trade receivables on an uncommitted revolving basis.

Credit Facility and Other Arrangements

Asset-Based Lending (ABL) Facility

Stelco Inc. has an asset-based lending (ABL) agreement with a syndicate of lenders for a maximum revolver amount of $375 million, maturing August 16, 2023. 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 the Company's trade receivables and inventory balances. At June 30, 2019, the available borrowing base was $238 million.

The interest rate on Canadian/US dollar denominated funds is the Canadian/US prime rate plus 0.25% - 0.75%, depending on the amount that had been drawn under the facility, payable monthly. Stelco also has the option to index the interest rate to CDOR/LIBOR plus a margin of 1.25% - 1.75%, and can elect this in the event that it results in a lower rate of interest on its draws under the revolver. Stelco can also obtain letters of credit under the facility at a rate of 1.25% - 1.75%. The Company's borrowing and repayment activity on the ABL facility during the period resulted in a nil outstanding balance as at June 30, 2019 (December 31, 2018 - nil). Stelco also had letters of credit outstanding as at June 30, 2019 of $57 million (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.

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 below.

Inventory Monetization Arrangement

Stelco Inc. has an inventory monetization financing arrangement which is subject to a financing rate of LIBOR plus a margin of 2.5%. Under the terms of the arrangement, Stelco Inc. 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.

Amounts advanced under the 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. The agreement provides Stelco Inc. with an option to terminate the arrangement early on either July 31, 2019 or August 30, 2019.

As at June 30, 2019, amounts advanced under this arrangement were $142 million compared to $216 million as at December 31, 2018. 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 Consolidated Balance Sheets. 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. This financing arrangement is secured by inventory with a carrying value of $191 million serving as collateral.

On August 6, 2019, Stelco Inc. 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.

Share Capital

The Company’s 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 additional shares were issued during the six months ended June 30, 2019. Refer to note 9 of the Consolidated Financial Statements for further details.

Reduction of Legal Stated Capital

On June 4, 2019, at the annual general and special meeting of shareholders of Stelco Holdings, common shareholders approved a special resolution to reduce the stated capital account of the common shares of Stelco Holdings to $500 million. In connection with such reduction, an amount of $995 million was added to the contributed surplus account of Stelco Holdings for legal and tax purposes. There was no impact to equity on the Consolidated Balance Sheet as a result of this transaction.

The Company believes that the reduction of stated capital will provide the Company with greater flexibility in managing its capital structure, including its ability to pay dividends and return capital to shareholders. The reduction of stated capital will not result in any change to equity as presented in the Company's Consolidated Financial Statements and therefore will not affect the Company's book value. The reduction of stated capital will also have no impact on the day-to-day operations of the Company and will not, on its own, alter the financial condition of the Company.

Dividend Policy

The Company’s primary objective is to deploy capital in a disciplined manner that creates value for our shareholders. We plan to evaluate our capital allocation policies on an on-going basis to ensure that we are maximizing returns for our shareholders. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend on many factors, including, among others, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by applicable corporate law and other factors that our Board of Directors may deem relevant.

In accordance with the Company’s Dividend Policy, Stelco Holdings management and the Board of Directors regularly review the Company’s rate of dividends to ensure an appropriate level of dividends.

Common Share Dividends

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

(millions of Canadian dollars, except per share amounts) 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.

The dividends have been declared as "eligible dividends" for purposes of the Income Tax Act (Canada).

Normal Course Issuer Bid

On November 16, 2018, Stelco Holdings received approval from the TSX of its notice of intention to launch a 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.

Share-based compensation

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 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.

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.

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. 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 and Comprehensive Income related to the vesting of these share options.

Deferred share unit plan

Stelco Holdings has a deferred share unit (DSU) plan for its 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.

Commitments and Contingencies

Employee Benefit Commitments

- Stelco Inc. has funding commitments with certain pension and OPEB trusts. Stelco Inc. committed to pay up to a maximum of $430 million to fund five main defined benefit pension plans previously sponsored by Stelco Inc. (Main Pension Plans).
- On June 5, 2018, Stelco Inc. entered into an Amended OPEB Funding Agreement, replacing the Original OPEB Funding Agreement, and committed to fixed contributions of approximately $494.5 million over twenty-five years to the ELHTs created for receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco Inc. In addition, Stelco Inc. agreed to pay a portion of its free cash flows (as defined) and certain tax-related savings amounts to the ELHTs.
- Bedrock has guaranteed certain minimum contributions to the Main Pension Plans up to a maximum amount of $160 million. The amount of such guarantee is reduced based upon, among other things, certain contributions being made to the Main

Pension Plans over time. The guarantee will be discharged upon the earlier of the $160 million being reduced to zero or the aggregate amount of all payments made by Stelco Inc. or Bedrock reaching $300 million.

- Certain components of the employee benefit commitments are tied to Stelco Inc.'s future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company in its Consolidated Balance Sheet is determined based upon the present value of those future payments as estimated by management. Changes in the magnitude or timing of those estimated future cash payments may result in the employee benefit commitment liability balances being adjusted upward or downward in future periods. If such adjustments to the liability carrying value were to occur, the Company would also recognize a corresponding expense item in its Consolidated Statements of Income as an element of finance cost. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.

Other Commitments

- Iron Ore Contract - Stelco Inc. committed to purchasing all of its iron ore requirements up to a specified amount from USS through the 2021 shipping season. This agreement contains a fixed price which is adjusted quarterly based on changes in specified indices.
- Union Agreements - Stelco Inc. has collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending July 1, 2022.

Leases

As at June 30, 2019, the Company had lease obligations with a carrying amount of $18 million (December 31, 2018 - $8 million), associated with certain equipment on its Consolidated Balance Sheets, which includes an IFRS 16 adjustment of $9 million. Refer to note 2 of Stelco Holdings' Consolidated Financial Statements for further details.

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, or Statements of Cash Flows.

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at June 30, 2019:

		Payments due by period		
(millions of Canadian dollars)	Total	2019 [1]	2020 to 2023	Thereafter
Trade payables	$ 257	$ 257	$ —	$ —
Inventory monetization arrangement	142	142	—	—
Lease obligations	21	5	11	5
Purchase obligations - non-capital [2]	559	360	127	72
Purchase obligations - capital	52	49	3	—
Obligations to independent employee trusts [3]	1,138	59	251	828
Total Contractual Obligations	**$ 2,169**	**$ 872**	**$ 392**	**$ 905**

1 Represents remaining six months of 2019.
2 Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
3 Represents estimated undiscounted cashflows related to 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.

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, Stelco Inc. became a related party of Bedrock B.V. Stelco Inc. has executed a management services agreement with an affiliate of Bedrock B.V. under which Stelco Inc. receives 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 are based upon actual costs incurred by Bedrock B.V. and/or its affiliates, plus a 2% mark-up on management services fees up to $5 million, and any services above $5 million are reimbursed at cost. The Company has incurred expenses of $2 million and $3 million for the three and six months ended June 30, 2019 (June 30, 2018 - $1 million and $2 million), in management services provided by Bedrock B.V. and its affiliated entities.

Refer to note 22 of the Consolidated Financial Statement for further details.

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 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 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 (June 30, 2018 - $1 million and $2 million) as an expense related to key management personnel salaries and benefits, share-based compensation, director fees, post-employment pension and medical and termination benefits.

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)	**2019**		2018				2017	
As at and for the three months ended[1]	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Financial results								
Total revenue	**$ 431**	**$ 517**	$ 648	$ 619	$ 711	$ 482	$ 452	$ 336
Steel products	**415**	**506**	617	574	672	467	425	326
Non-steel products	**16**	**11**	31	45	39	15	27	10
Gross profit (loss)	**15**	**58**	134	151	177	70	73	(1)
Selling, general and administrative expenses	**12**	**14**	16	13	15	12	31	16
Net income (loss)	**1**	**43**	110	125	(11)	29	15	(30)
Adjusted net income (loss) [2]	**6**	**60**	123	174	165	50	52	(11)
Adjusted EBITDA [2]	**32**	**76**	167	193	185	69	69	7
Per common share (diluted)								
Net income (loss)	**$ 0.01**	**$ 0.48**	$ 1.23	$ 1.41	$(0.12)	$ 0.33	$ 0.21	$(0.40)
Adjusted net income (loss) [2]	**$ 0.07**	**$ 0.68**	$ 1.38	$ 1.96	$ 1.86	$ 0.56	$ 0.67	$(0.15)
Common shareholder dividends	**$ 0.10**	**$ 1.23**	$ 0.10	$ 1.79	$ 0.10	$ 0.10	$ —	$ —
Financial position								
Total assets	**1,513**	**1,439**	1,655	1,449	1,492	1,121	1,223	n.a.
Total non-current liabilities	**498**	**509**	508	519	508	333	352	n.a.
Operating results								
Selling Price per nt (in dollars per nt) [2]	**761**	**827**	917	980	898	762	718	793
Adjusted EBITDA per nt (in dollars per nt) [2]	**59**	**124**	248	329	247	113	117	17
Shipping volumes (in thousands of nt) [2]	**545**	**612**	673	586	748	613	592	411
Hot-rolled	**375**	**517**	553	446	590	491	473	299
Coated	**67**	**66**	79	82	93	84	77	78
Cold-rolled	**19**	**4**	10	19	33	15	15	12
Other	**84**	**25**	31	39	32	23	27	22

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 Holdings' financial performance declined in Q2 2019 over Q1 2019 primarily as a result of lower average steel selling prices and shipping volumes partly offset by higher sales of non-steel products. The following discussion reflects the Company's trend analysis in a chronological order.

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. 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 748 thousand nt in Q2 2018 to 586 thousand 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. 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 586 thousand nt in Q3 2018 to 673 thousand 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 hot-strip mill planned 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, basic oxygen furnace and caster during September 2018. 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 coke oven repairs and hot strip mill enhancements planned for the remainder of 2019 and into 2020. Revenue decreased 20% from $648 million in Q4 2018 to $517 million in Q1 2019. The decrease in revenue reflects 9% lower steel shipping volumes from 673 thousand nt in Q4 2018 to 612 thousand nt in Q1 2019, a 10% decrease in average selling prices which decreased from $917/nt in Q4 2018 to $827/nt in Q1 2019 and $20 million lower non-steel sales mostly related to metallurgical coke products and mill scale. Revenue decreased $86 million or 17% from Q1 2019 to $431 million in Q2 2019. The decrease in revenue reflects 67 thousand nt or 11% lower steel shipped from Q1 2019 to 545 thousand nt in Q2 2019 and an 8% decrease in average selling prices which decreased $66/nt from Q1 2019 to $761/nt in Q2 2019, partly offset by $5 million in higher non-steel sales mostly related to metallurgical coke and kish products.

Since Q3 2017, gross profits were primarily driven by generally higher sales volumes and selling prices per nt, partly offset by higher raw material costs and, commencing in Q2 2018, tariff costs on US bound shipments. During Q3 2017, we experienced a general decline in our shipping volumes 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. 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 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. Gross profit for Q1 2019 decreased compared to Q4 2018 primarily due to lower average selling price of steel, shipping volumes realized and higher cost of steel products sold, partly offset by lower tariffs incurred during the period. Gross profit for Q2 2019 decreased compared to Q1 2019 primarily due to a decrease in average selling price of steel and shipping volumes realized, partly offset by lower cost of steel products sold and tariffs incurred during the period. The Company incurred approximately $7 million of tariff related charges during Q2 2019.

SG&A expenses increased during Q4 2017 as the Company incurred costs associated with its initial public offering and cloud-based ERP implementation. Since 2018, SG&A primarily consisted of ERP implementation, employee salary and benefit related costs, and management fees, and share-based compensation during the first half of 2019.

During Q3 2017, as discussed further above, we experienced a general decline in our shipping volumes due to a planned blast furnace outage which contributed to a net loss for the period. 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 $146 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 land and buildings acquisition during the second quarter of 2018. Net income for Q1 2019 decreased compared to Q4 2018 primarily due to lower gross profit and finance and other income during the period, partly offset by lower finance costs. Net income for Q2 2019 decreased compared to Q1 2019 primarily due to lower gross profit for the period.

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 $69 million in Q1 to $174 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 of 2018. A positive outcome from the Q2 2018 growth in selling volumes and a positive pricing environment was the 24% Adjusted EBITDA margin in the quarter, up from the 14% Adjusted EBITDA margin in Q1 2018. With exception of impact from tariff related costs, Adjusted EBITDA has decreased since Q2 2018 primarily due to the same factors described for gross profit above.

Significant Accounting Policies

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

The Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the 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.

Changes in accounting policies

Stelco 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*.

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, in the Consolidated Financial Statements for further details on the impact of the transition to IFRS 16 on property, plant and equipment, and other liabilities.

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.

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.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

At June 30, 2019, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Company, together with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and the CFO, and have designed internal controls over financial reporting and disclosure to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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

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

Risk and Uncertainties

We believe our performance and future success depend on a number of factors that present significant opportunities for us. For a discussion of risk factors that have been identified by the Company refer to the 2018 AIF and 2018 MD&A which are available through the SEDAR website at www.sedar.com.

Corporate Information

Executive Management

Alan Kestenbaum
Executive Chairman

David Cheney
Chief Executive Officer

Don Newman
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

Alan Kestenbaum
Executive Chairman

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

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

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

Jacob Lew
Partner, Lindsay Goldberg

Michael Mueller [1,6]
Corporate Director

Heather Ross [2,3]
Corporate Director

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

Auditors

KPMG LLP
21 King Street West, Suite 700
Hamilton, Ontario
L8P 4W7

Transfer Agent and Registrar

Computershare Investors Services Inc.
100 University Avenue, 8th Floor
North Tower, Toronto, Ontario M5J 2Y1
Telephone: 1 (800) 564-6253 or
(416) 263-9200
Fax: 1 (888) 453-0330
Website: www.computershare.com
Email: service@computershare.com

Stock Exchange Listing

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

Shareholder Information

Stelco Holdings Inc.
386 Wilcox Avenue,
Hamilton, Ontario
L8N 3T1
Telephone: (905) 528-2511
Fax: (905) 308-7002
Website: www.stelco.com
Email: investor.relations@stelco.com

Shareholder and Investor Contact

Don Newman
Chief Financial Officer
Telephone: (905) 577-4432
Email: don.newman@stelco.com