



# 2018 Annual Report

BUILT CANADIAN



## FORWARD-LOOKING INFORMATION

Certain information included in this Annual Report contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "Message to Shareholders"; "Our Business"; "Our Operations & 2018 Highlights"; "Environmental, Health & Safety"; and "2018 Financial Results" sections of this Annual Report.

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, dividend policy, plans and objectives of our Company. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity for", "budget", "scheduled", "estimates", "outlook", "forecasts", "pursuing", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "continue to", 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: our ability to execute on our 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; statements relating to our ability to adapt to evolving market conditions; increasing and/or optimizing our asset utilization and production; our ability to regain sales volumes lost in recent years; expectations regarding continued value creation and our ability to maintain a conservative capital structure, a strong balance sheet, and maximizing profitability and cash flows; expectations regarding the growth of our business and the strength of our operations; our expectation that margins per unit will continue to expand; our ability to maintain our low cost position; our ability to control the cost of our raw material inputs by entering into long-term supply contracts; our ability to deliver higher margins and to generate increased cash flows; our ability to develop the lands on which we conduct our business in Hamilton and Nanticoke in a manner that complements our current and future operations; our ability to successfully pursue other uses for our lands, including extracting additional value from these assets by enhancing operating flexibility; expectations regarding the Government of Canada's support for the business and workers impacted by the United States trade measures; our ability to deliver significant organic growth from low-capital, high-return projects; our ability to make selective capital expenditures to improve our product mix to focus on more advanced steel products; our ability to take a disciplined approach to our capital investments with a focus on return-based metrics; our ability to preserve our capital structure with low financial leverage to ensure maximum free cash flow generation; expectations regarding our focused approach to pursuing projects with the highest cash on cash returns and fastest payback; our ability to grow our business through complementary acquisitions and other investments to maximize shareholder returns; expectations regarding our efforts to protect the environment of the communities where we have operating facilities; our ability to prevent pollution in a cost-effective manner and to meet other environmental goals; our ability to deal with future costs relating to environmental compliance in a manner that will not have a material adverse effect on the Company's position; our ability to increase production and grow our business in an environmentally responsible and sustainable manner; our ability to increase our production and utilize our excess capacity in a manner that does not materially affect applicable environmental requirements, including greenhouse gas and other air emission requirement; our expanded distribution capabilities; expectations regarding accretive M&A opportunities; and expectations regarding future actions to maximize shareholder returns and profitability.

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.

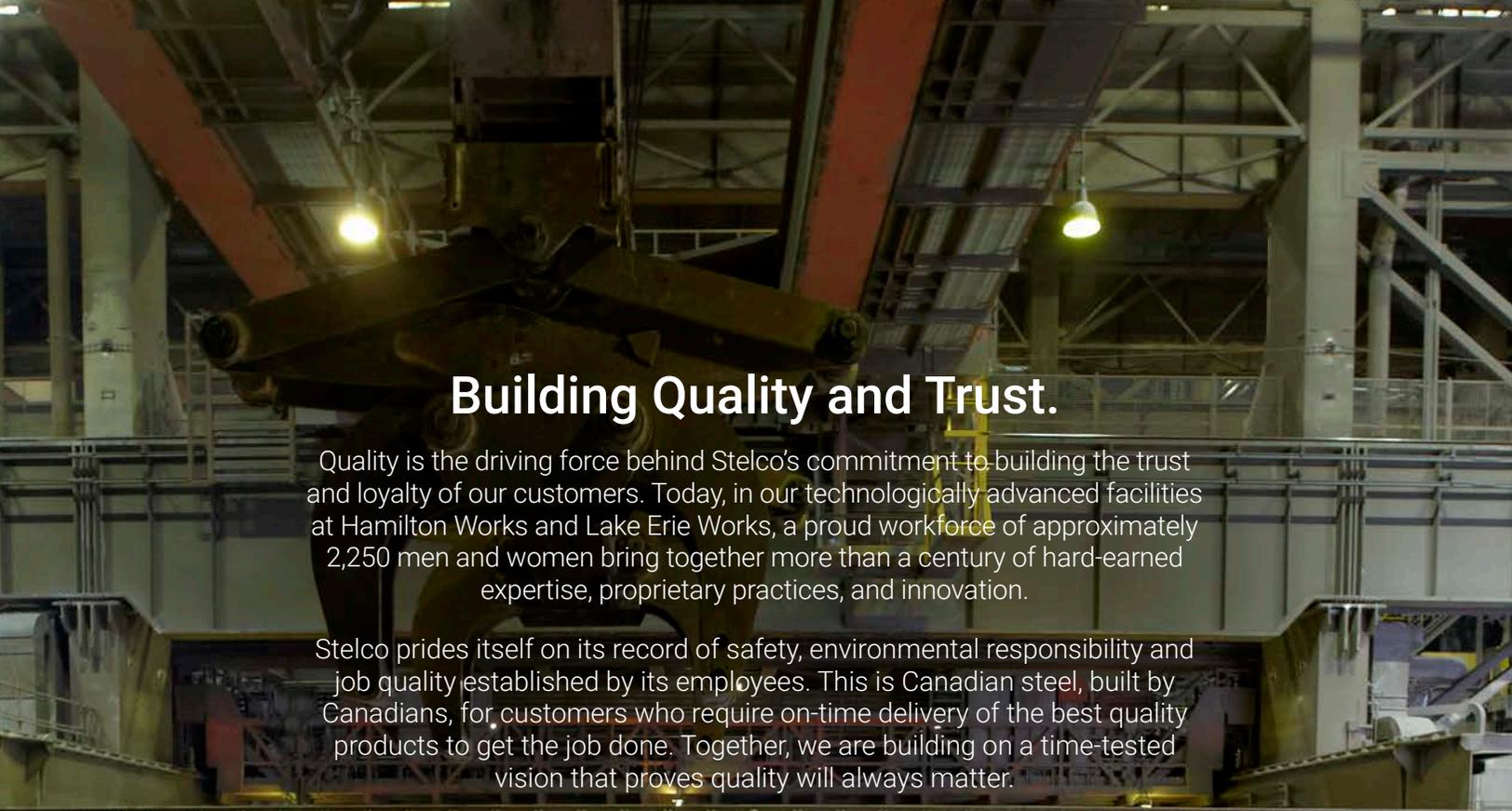
The forward-looking information contained in this Annual Report represents management's expectations as of the date of this Annual Report and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether 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 Annual Report 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 Factors" in our MD&A.

**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.**

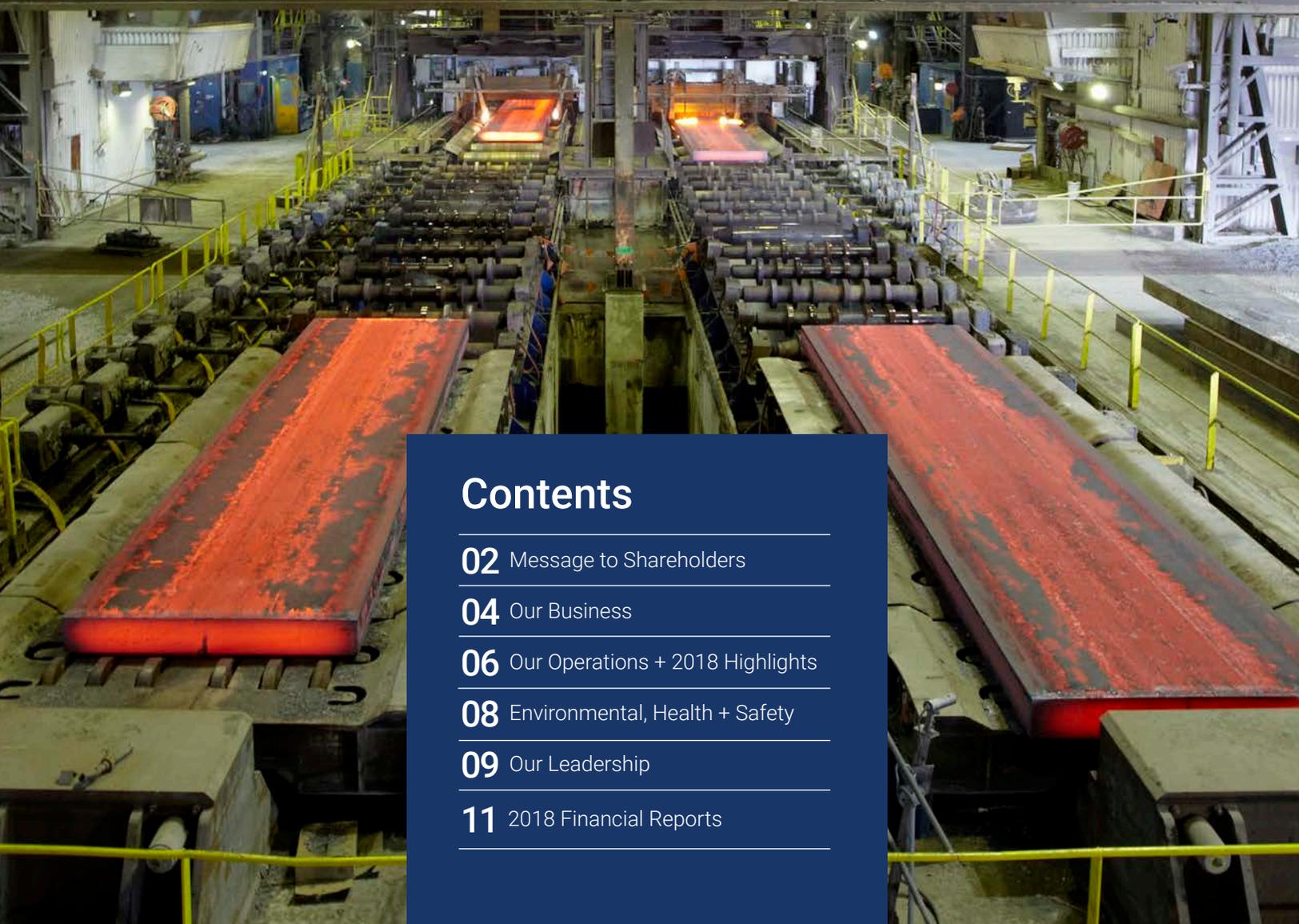




## Building Quality and Trust.

Quality is the driving force behind Stelco's commitment to building the trust and loyalty of our customers. Today, in our technologically advanced facilities at Hamilton Works and Lake Erie Works, a proud workforce of approximately 2,250 men and women bring together more than a century of hard-earned expertise, proprietary practices, and innovation.

Stelco prides itself on its record of safety, environmental responsibility and job quality established by its employees. This is Canadian steel, built by Canadians, for customers who require on-time delivery of the best quality products to get the job done. Together, we are building on a time-tested vision that proves quality will always matter.



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# Message to Shareholders

## TO OUR FELLOW SHAREHOLDERS,

This past year we saw the benefits of executing a strategy focused on enhancing stability and agility – an approach that we call tactical flexibility – in the face of headwinds in the form of market disruptions and tariffs. Born out of an era of immense change, Stelco is a storied company that is adapting to evolving conditions. While Stelco traces its roots back to 1910, this year marked the one-year anniversary of the Company's rebirth, a year in which Stelco became more disciplined, agile and resilient. We are growing our business in a way that creates value for our shareholders, while benefitting our customers, employees, partners and other stakeholders.

In Stelco tradition, we have not only adapted to fluid market conditions, but have thrived in them. This past year we have seen impressive results that were made possible with the sustained efforts of our employees, our two United Steel Workers Union locals, various levels of government, and the Company's leadership.

In February, 2019, we also saw an important organizational change, with the appointment of David Cheney to the position of Chief Executive Officer. David now has executive responsibility for all aspects of the Company's day-to-day business. I continue in my role as Executive Chairman, and will now have more capacity to focus on all areas of corporate growth, strategic planning, and maximizing shareholder returns. This focus, along with the maintenance of tactical flexibility and a conservative capital structure, has positioned the Company for continued value creation for our shareholders, and is what will allow us to continue to maximize value for all shareholders in the future.

## 2018 HIGHLIGHTS

Our primary strategic objectives continue to be optimizing production from our assets, maintaining our strong balance sheet, maximizing profitability and cash flows, and growing our business. We met or exceeded our objectives on all of these fronts in 2018:

- **Growth:** 2018 was a year of exceptional growth for Stelco with annual revenues of \$2,460 million, an increase of 54% from \$1,601 million in 2017. We also increased our shipping volume by 31% in 2018, from 2,000 million nt in 2017 to 2,620 million nt in 2018.

- **Record Financial Results:** Stelco Holdings' record bottom line results included full year operating income of \$476 million, adjusted EBITDA<sup>1</sup> of \$541 million, and tariff adjusted EBITDA<sup>1</sup> of \$614 million, and are a testament to Stelco's strong operations and its tactical flexibility model.
- **Best in class margins:** Stelco's costs per ton are among the lowest in North America. As we increase our asset utilization and continue to regain volumes lost in recent years, we expect that our margins per nt will continue to expand. We also continued to maintain our low-cost position, and will seek to continue to do so 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. Our focused approach will enable us to deliver higher margins and generate increased cash flow.
- **Acquisition of Lands:** Stelco enhanced its agility and optionality in June 2018, with the acquisition of the lands on which Stelco conducts its Hamilton and Nanticoke operations. The acquisition provides Stelco with the flexibility to utilize the properties for our existing operations and allows the Company to develop these properties in a manner that both complements our current and future operations. Stelco can also pursue other uses for the lands, including extracting additional value from these assets by enhancing operating flexibility in ways previously unavailable to us.
- **Special Dividends:** On the basis of strong growth and bottom line results in the first half of 2018, the Company paid a special dividend of \$1.69 per common share on August 15, 2018. Stelco also paid a special dividend of \$100 million or \$1.13 per common share, paid on March 20, 2019, which represented excess cash from operations arising from the Company's positive financial performance during the second half of 2018.
- **Debt Free balance sheet:** We are proud to be the only public steel company with a strong cash position and no financial debt (excluding mortgages). Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and Other Post-Employment Benefits Funding (OPEBs). On

<sup>1</sup> 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 the Company's Management, Discussion and Analysis for the year ended December 31, 2018 and 2017, which is included in the "2018 Financial Reports" section of this Annual Report.

June 5, 2018, Stelco entered into an amended OPEB funding agreement. First and foremost, this provides the independent employee life and health trusts (ELHTs) with an increased fixed funding commitment over a 25-year term, which provides greater certainty to our employees and retirees. It also reduces the Company's exposure to future variable funding requirements.

- **Fairfax Strategic Investment:** On November 19, 2018, Fairfax Financial Holdings Limited ("Fairfax") acquired, through affiliated entities by way of a private share purchase with Bedrock Industries B.V., a total of 12,200,000 common shares of Stelco Holdings, representing approximately 13.7% of the issued and outstanding common shares of the Company. Fairfax is a well-known and respected company that invests in assets it believes will provide above average returns over the long-term. Its investment in Stelco reinforces our belief that the Company is well positioned to create growing and sustainable value. Bedrock Industries B.V. now holds 41,172,315 common shares, representing approximately 46.4 per cent of the total outstanding common shares issued by Stelco Holdings.

We are particularly proud of how Stelco continued to deliver value creation to shareholders despite a challenging and evolving operating environment in 2018. This was most evident in the wake of sub-optimal trade conditions, originating with the U.S. Administration's imposition of tariffs on Canadian steel and aluminum, and the Canadian counter-measures. Despite being the only public steel company facing a headwind from trade, we believe we outperformed our peers. Again, this is a testament to Stelco's low cost position and tactical flexibility model.

Stelco has met fluid market conditions head-on and thrived. As a leading advanced integrated steel producer in North America, our ability to utilize multiple modes of transportation (water, rail and truck) to reach supply and destinations around the globe from our unique locations, has proven integral.

#### **GENERATING LONG-TERM, SUSTAINABLE GROWTH THROUGH DISCIPLINE AND ASSET OPTIMIZATION**

Stelco has a focused and disciplined strategy to generate long-term sustainable returns for shareholders by:

- **Optimizing Production from our Assets** – We believe we can deliver significant organic growth

from low-capital, high-return projects. Stelco utilizes excess capacity to pursue initiatives such as capturing, recycling, and selling the by-products generated in our production process.

- **Maintaining our Strong Balance Sheet** – We have long believed that maintaining financial discipline results in the delivery of sustainable, long-term shareholder returns, and ensures the Company is well-positioned to manage the cyclical nature of the steel industry. At the same time, we make selective capital expenditures to improve our product mix to focus on more advanced steel products. We take a disciplined approach to our capital investments with a focus on return-based metrics. We are not encumbered by significant and uncapped liabilities associated with pensions and OPEBs. Preserving our capital structure with low financial leverage that is largely free from legacy liabilities allows us to ensure maximum free cash flow generation.
- **Growing our Business** – Our management team's proven track record of value creation, through a focused approach to acquisitions, has allowed us to maintain a strong balance sheet and to selectively pursue strategic opportunities. 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.

Your Board and management team have worked to make Stelco more disciplined, agile and resilient. We are confident that this is the formula for creating sustainable value for shareholders. We sincerely thank everyone who has played a role in our success to date. The future of Stelco is bright for our dedicated employees, loyal customers and our shareholders, and we thank you for your continued support.



**ALAN KESTENBAUM**  
Stelco Holdings Executive Chairman



# Our Business

Established in 1910, Stelco is primarily engaged in the production and sale of steel products. The Company owns the newest and one of the most technologically advanced integrated steelmaking facilities in North America. We produce flat-rolled value-added steels, including premium-quality coated, pre-painted, cold-rolled and hot-rolled steel products as well as metallurgical coke. With first-rate gauge, crown, and shape control, as well as uniform through-coil mechanical properties, our steel products are supplied to customers in the construction, automotive and energy industries across Canada and the United States, as well as to a variety of steel service centres, which are regional distributors of steel products. Stelco Holdings Inc., the 100% owner of Stelco, is listed on the Toronto Stock Exchange under the symbol 'STLC'.

Quality is the driving force behind Stelco's commitment to building the trust and loyalty of our customers. Today, in our technologically advanced facilities at Hamilton Works and Lake Erie Works, a proud workforce of approximately 2,250 men and women bring together more than a century of hard-earned expertise, proprietary practices, and innovation.

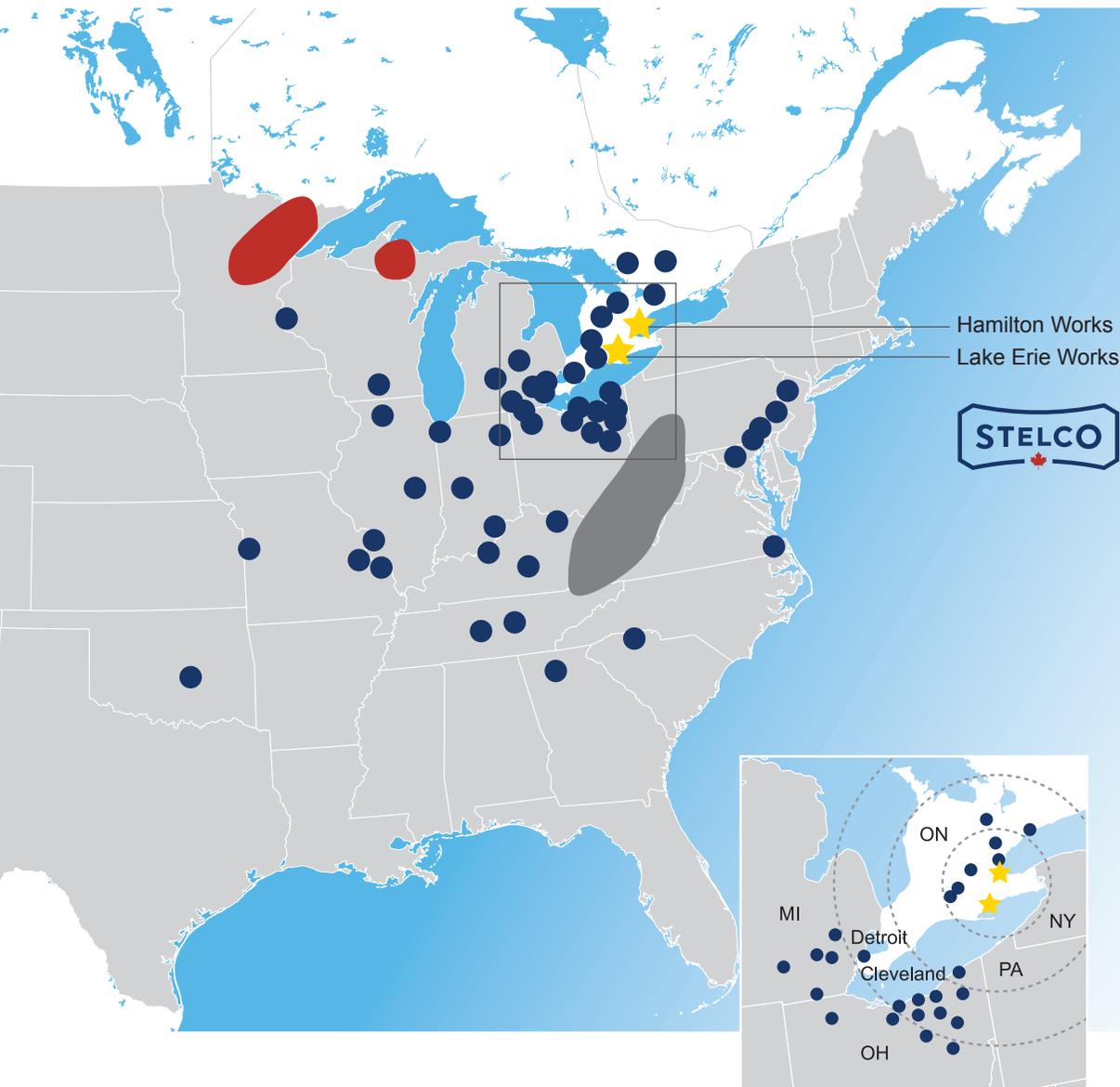
Stelco's strategy is to maximize total shareholder returns while maintaining a conservative capital structure. This strategy is underpinned by four strategic objectives:

These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality, 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.

## STRATEGIC OBJECTIVES

- 01** Increase production through optimization of our assets
- 02** Maintaining our strong balance sheet and financial discipline
- 03** Maximizing profitability and cash flows
- 04** Growing our business





**2018**  
HIGHLIGHTS



Bedrock Industries acquires Stelco Inc.

**JULY 1, 2017**



Stelco Holdings completes successful Initial Public Offering

**NOV, 10 2017**



Announcement of land acquisition of lands beneficially owned by Legacy Lands Limited Partnership

**JUNE 5, 2018**

Stelco enters into amended OPEB funding agreement

**JUNE 5, 2018**

# Our Operations

Stelco operates from two facilities: Hamilton Works and Lake Erie Works. Our operations are strategically located near our raw material suppliers and core customers, which positions us to serve customers in both Canada and the United States with shorter lead-times relative to other steelmakers. Furthermore, both of our operating facilities have access to multiple modes of transportation (water, rail and truck) allowing us to negotiate competitive freight rates, rapidly adapt to changing market environments, and access customers across a wide range of locations.

## HAMILTON WORKS

Stelco's Hamilton Works is driven by innovation. Commissioned in 1905 at Hamilton Harbour, Hamilton Works has evolved with the steel industry and its customers by developing and applying the sector's most modern technology and practices. Home to one of North America's premier zinc-coating lines, Hamilton Works' skilled employees produce world-leading galvanized and galvanized sheet steel that serves important Canadian sectors such as the automotive, agriculture and infrastructure industries. The 18-storey Z-Line is a world leader that has the capacity to annually produce up to 470,000 tons of product with excellent surface quality, corrosion resistance and formability.

## LAKE ERIE WORKS

Stelco's Lake Erie Works has been at the forefront of North America's steel industry since it was commissioned in 1980. Located centrally on the north shore of Lake Erie, it is one of the continent's most modern and capable steel facilities. It is also the newest greenfield integrated steel making facility in North America, and it serves as an industry flagship of productivity and environmental innovation. The skilled employees who drive the success of this leading-edge operation work in an environment which has benefited from over \$680 million in investments and upgrades since 2000. In addition to providing primary products for value-added finishing at Hamilton Works, Lake Erie Works effectively and reliably integrates Stelco products into customer supply chains for just-in-time delivery.

Declaration of a special dividend of \$1.69 per common share

**JULY 31, 2018**

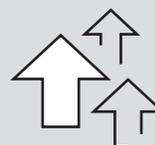


Announcement of completion of secondary equity offering

**SEPT 18, 2018**

Fairfax Financial Holdings Ltd. acquires 12,200,000 common shares of Stelco Holdings from Bedrock Industries

**NOV 19, 2018**



Stelco reports record 2018 financial results and declares special dividend of \$1.13

**FEB 19, 2018**

# Environmental, Health + Safety

Stelco is committed to being an environmentally responsible company and continually improving our efforts to protect the environment of the communities where we have operating facilities.

Our ISO 14001 registered environmental management system establishes and reviews environmental objectives and targets to: reduce air, water and waste pollution by means of practices, operating procedures and programs; comply with environmental legal requirements and meet our other environmental goals; prevent pollution in a cost-effective manner; and improve continually. Future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on the Company's position. As Stelco continues to pursue its strategic objectives of increasing production and growing our company, we will do so in an environmentally responsible and sustainable manner. Our plans to increase production to use our substantial excess capacity are not expected to be materially affected by applicable environmental requirements, including greenhouse gas (GHG) and other air emissions requirements.

The health and safety of employees is one of Stelco's top priorities. We are committed to continued responsibility and excellence with respect to preserving the health and safety of our employees. In recent years, we have demonstrated this commitment through continual investment in health and safety enhancements such as: enhanced personal protection equipment for all employees; additional safety features to existing equipment and improving the overall conditions of the workplace environment. Stelco also continuously reviews its policies and procedures to ensure that best practices are implemented across our facilities.





# Our Leadership

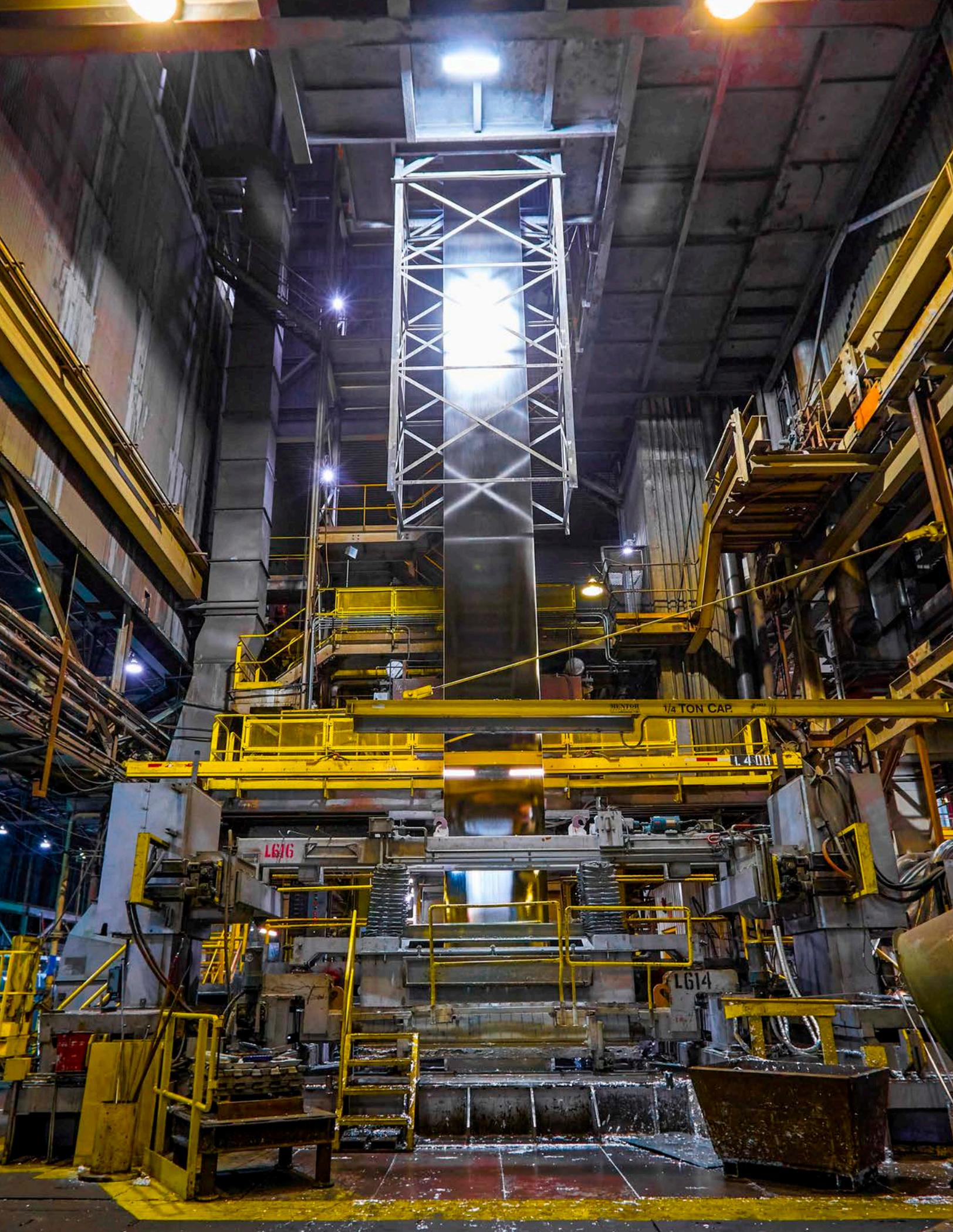
## BOARD OF DIRECTORS

Alan Kestenbaum  
Executive Chairman  
Peter Bowie  
Jeffrey B. Bunder  
Michael W. Dees  
Alan Goldberg  
Brian Levitt  
Jacob Lew  
Dr. Indira Samarasekera

## EXECUTIVE

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





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2018 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 months and year ended December 31, 2018 (Q4 2018 and 2018 respectively). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Holdings and its consolidated subsidiaries, as applicable. This MD&A, which has been prepared as of February 15, 2019, should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2018 (Consolidated Financial Statements). Our 2018 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in millions of Canadian dollars unless otherwise indicated.

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

### FORWARD-LOOKING INFORMATION

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

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

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

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

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

In addition, we believe that our performance and our ability to achieve our target growth in annual shipments by the end of fiscal year 2022 disclosed in this MD&A depend on a number of material factors including (i) sustained global demand growth; (ii) continued steel production capacity curtailments in China; (iii) the elimination of unfair trade practices, particularly with respect to the U.S. 232 tariffs; and (iv) improved and stable supply and demand fundamentals in the rest of the world. These factors are also subject to a number of inherent risks, challenges and assumptions. Certain assumptions underlying the annual shipment target are disclosed in the final prospectus relating to the Company's initial public offering and include the following:

- our ability to utilize and access our excess capacity with limited capital investment;
- the execution of our planned upgrades to our facilities and equipment including the LEW blast furnace reline;
- our research and development activities being successful to allow us to produce advanced steel grades and AHSS (as defined herein) and UHSS (as defined herein);
- our ability to re-engage with customers to increase sales volume of technically advanced steels is successful;

- steel consumption in North American automobiles will grow to 6.7 mnt by 2025 at the expected rate as estimated by World Steel Dynamics Inc.;
- the anticipated growth in the North American market for steel products will grow in line with expected gross domestic product growth of 2% to 3% per annum;
- our ability to remain a low-cost producer of steel products through our ability to effectively manage costs;
- the current higher international prices of steel products will remain so as to disincentivize imports;
- our ability to attract and retain key personnel and skilled labour; and
- our ability to obtain orders on acceptable terms for our planned increased production.

Management currently believes that the achievement of the annual shipment growth target in 2022 is possible, can be reasonably estimated and is based on underlying assumptions that management believes are reasonable in the circumstances, given the time period of such target. However, there can be no assurance that we will be able to continue to grow our annual shipments. Furthermore, there can be no assurance that inflation rates, foreign currency exchange rates, taxation rates, interest rates, debt repayment terms or our ability to continue generating free cash flow through minimal investment in capital expenditures will be consistent with our assumptions as actual rates and levels may vary.

The description of our potential growth opportunities in this MD&A is based on management's current views and strategies, our assumptions and expectations concerning our growth opportunities and our assessment of the opportunities for our business and the steel industry as a whole, and has been calculated using accounting policies that are generally consistent with our current accounting policies. The purpose of disclosing our target for our growth in our annual shipments by 2022 is to provide investors with more information concerning what management currently believes is achievable based on our growth strategies.

The description of our target growth is forward looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described elsewhere in this MD&A. See above for a description of the assumptions underlying expected growth in annual shipments, and see the section "*Risk Factors*" in the Company's Annual Information Form dated February 15, 2019 and filed on SEDAR at [www.sedar.com](http://www.sedar.com) for a description of the risks and uncertainties that impact our business and that could cause actual results to vary.

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

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



## Management's Discussion and Analysis

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Overview

Stelco 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'. The Company 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 continues to be Stelco Holdings' largest shareholder, currently owning approximately 46.4% of the issued and outstanding common shares.

Since Bedrock indirectly acquired all outstanding shares of Stelco Inc. on June 30, 2017 and had common control at the date when Stelco Holdings acquired Stelco Inc., the Company accounted for this transaction in a manner similar to a pooling of interest method applied from June 30, 2017. This method required our 2017 Consolidated Financial Statements to be restated for periods prior to the date of obtaining common control (November 10, 2017), to reflect the combination as if it had occurred from the beginning of the period as if the entities were under common control, regardless of the actual date the common control transaction closed.

### Overview

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

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

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

### U.S. Section 232 Trade Expansion Act

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

### ***Trade Remedy: Dumping and Subsidy Investigations***

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

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

### ***Initiation of Safeguard Measures***

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

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

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

### ***Land and Building Acquisition***

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

In connection with the Lands acquisition, existing lease arrangements between Stelco Inc. and the Land Vehicle were terminated and the associated rental payments were canceled, resulting in Stelco Inc.'s buildings', previously held under a finance lease, to be reclassified and recorded as wholly-owned buildings with a carrying value of \$21 million. Lease related obligations of \$30 million,

## MANAGEMENT'S DISCUSSION AND ANALYSIS

consisting of building and land leases of \$24 million and \$6 million, respectively, were derecognized concurrent with the Lands acquisition. The total purchase consideration of \$114 million consisted of land and building costs of \$89 million and \$25 million, respectively, and excluded \$4 million of transaction costs.

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

The Lands acquisition provides Stelco with the flexibility to utilize the properties for its existing operations and allows the Company to develop these properties in a manner that both complements our current and future operations and to pursue other uses for the Lands; in particular: (i) extracting additional value from our assets by enhancing operating flexibility previously unavailable to us, (ii) lowering our costs, and (iii) creating significant and previously unrealizable value for our shareholders through development of excess land and port facilities located in the Greater Toronto Area. In addition, Stelco Inc. continues to receive the benefit of the environmental release in respect of the Lands that was granted by the MECP on closing of Stelco Inc.'s *Companies' Creditors Arrangement Act* (CCAA) reorganization on June 30, 2017.

### **Amended OPEB Funding Agreement**

Also on June 5, 2018, Stelco Inc. entered into an amended OPEB funding agreement (the Amended OPEB Funding Agreement) that reduced Stelco Inc.'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. The Amended OPEB Funding Agreement replaces Stelco Inc.'s funding obligations under the OPEB funding agreement that was entered into at the closing of Stelco Inc.'s CCAA reorganization (the Original OPEB Funding Agreement).

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

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

### **Common Share Special Dividends**

On July 31, 2018, the Board of Directors declared a special dividend of \$1.69 per common share, paid on August 15, 2018 to shareholders of record as of August 10, 2018. This special cash dividend represented excess cash from operations arising from the Company's positive financial performance during the first half of 2018.

On February 15, 2019, the Board of Directors 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.

### **Secondary Offerings**

On April 4, 2018, Stelco Holdings announced the completion of a bought deal secondary offering (April Offering) of 10,000,000 common shares of Stelco Holdings by Bedrock B.V. at a price of \$21.75 per common share for aggregate gross proceeds of \$217.5 million to Bedrock B.V. The net proceeds of the April Offering, after deducting the underwriter commission, were paid to Bedrock B.V. Prior to the April Offering, Bedrock B.V. held 75,283,887 common shares of Stelco Holdings', which represented approximately 84.8% of the total outstanding common shares.

On September 18, 2018, Stelco Holdings announced the completion of an additional secondary offering (September Offering) of 8,000,000 common shares of the Company by LG Bedrock Holdings LP and Foundation Industries Group LLC (collectively, the Selling Shareholders) at a price of \$22.65 per common share for aggregate gross proceeds of \$181.2 million to the Selling Shareholders. In addition, on October 10, 2018, the underwriters to the September Offering exercised in part their over-allotment option (Over Allotment Option) to purchase an additional 730,000 common shares of the Company from the Selling Shareholders at a price of \$22.65 per Common Share for aggregate gross proceeds of \$16.5 million to the Selling Shareholders. The net proceeds of the September Offering, after deducting the underwriter commission, were paid to the Selling Shareholders.

### **Private Share Purchase**

On November 19, 2018, Fairfax Financial Holdings Limited acquired, through affiliated entities and by way of a private share purchase with Bedrock B.V., a total of 12,200,000 common shares of Stelco Holdings, representing approximately 13.7% of the issued and outstanding common shares of the Company, at a price of \$20.50 per common share.

Following the completion of the September Offering, Over Allotment Option and Private Share Purchase, Bedrock B.V. holds 41,172,315 common shares, representing approximately 46.4% of the total outstanding common shares issued by Stelco Holdings.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Organization Change**

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

### **Strategy**

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on four strategic objectives: (i) optimizing production from our assets; (ii) maintaining our strong balance sheet; (iii) maximizing profitability and cash flows; and (iv) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins Stelco Inc.'s 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.

#### **Optimize Production From our Assets**

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

#### **Maintain our Strong Balance Sheet**

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining our strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including Advanced High Steel Strength (AHSS) and Ultra High Steel Strength (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and OPEBs. Further, we have approximately \$814 million of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at December 31, 2018, which may allow us to reduce our cash tax payments and increase free cash flow generation. We seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

#### **Maximize Profitability and Cash Flow**

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

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

#### **Grow our Business**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Health, Safety and Environment

#### Health and Safety

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

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

#### Environmental

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

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

By January 1, 2026, LEW and HW will be required to implement plans and measures to reduce the amount of sulphur dioxide (SO<sub>2</sub>) and other compounds emitted from the combustion of coke oven gas by-product by implementing coke oven gas desulphurization technology. This requirement arises under a notice (Notice) issued under subsection 56(1) of the Canadian Environmental Protection Act, 1999, which requires prescribed persons to prepare and implement pollution prevention plans in respect of specified toxic substances released from the iron and steel sector. The substances are SO<sub>2</sub>, oxides of nitrogen (NO<sub>x</sub>), and volatile organic compounds (VOC). The Notice applies to all steel mills, including LEW and HW, other integrated mills, as well as mini (electric arc furnace) mills. The Notice requires these facilities to prepare and implement plans to achieve specified air emission targets for SO<sub>2</sub>, NO<sub>x</sub>, and to implement best practices to reduce fugitive emissions of VOCs. As noted above, the target date for desulphurization of coke oven gas is January 1, 2026. The facilities were required to monitor baseline emissions in 2017, prepare a plan in 2018, and implement the plan by the specified date. The facilities will also be required to submit a written declaration that the plan has been prepared, and one that the plan is being implemented, as well as interim progress reports.

#### *Cap and trade regulation update*

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

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

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

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

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

### Non-IFRS Performance Measures

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

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

#### Adjusted Net Income

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

#### Adjusted EBITDA

Adjusted EBITDA is defined as net income or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization and the impact of certain non-routine, non-recurring, and/or non-cash items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) loss from commodity-based swaps, (ii) provision on pension and other post-employment benefits, (iii) restructuring and other costs, (iv) separation costs related to USS support services, (v) initial public offering costs, (vi) secondary offering costs, (vii) property related idle costs included in cost of goods sold, (viii) the fair value impact on acquired inventory recorded in cost of goods sold, and (ix) income related to buildings finance lease termination. Adjusted EBITDA is used by management, investors, and analysts to measure operating performance of the Company and is a supplement to our Consolidated Financial Statements presented in accordance with IFRS. Adjusted EBITDA is a helpful measure of operating performance before non-operating financial items such as finance costs, finance income and income tax expense, as well as depreciation, which are non-cash expenses. Adjusted EBITDA also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA a meaningful measure for assessing the underlying financial performance of the Company, Adjusted EBITDA is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Tariff Adjusted EBITDA

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

### Adjusted EBITDA per net ton

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

### Tariff Adjusted EBITDA per net ton

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

### Selling Price per net ton

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

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

### Shipping Volume

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Selected Financial Information

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

(millions of Canadian dollars, except where otherwise noted)	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Financial results</b>		
Total revenue	\$ 2,460	\$ 788
Gross profit	532	72
Selling, general and administration expenses	56	47
Net income (loss)	253	(15)
Adjusted net income <sup>1</sup>	439	41
Adjusted EBITDA <sup>1</sup>	541	76
Tariff Adjusted EBITDA <sup>1</sup>	614	76
<b>Per common share (basic and diluted)</b>		
Net income (loss)	\$ 2.85	\$ (0.19)
Adjusted net income <sup>1</sup>	\$ 4.94	\$ 0.52
Common shareholder dividends	\$ 2.09	\$ —
<b>Operating Results</b>		
Selling price per nt (in dollars per nt) <sup>1</sup>	\$ 889	\$ 749
Adjusted EBITDA per nt (in dollars per nt) <sup>1</sup>	206	76
Tariff Adjusted EBITDA per nt (in dollars per nt) <sup>1</sup>	234	76
Shipping volumes (in thousands of nt)	2,620	1,003
Hot-rolled	2,080	772
Coated	338	155
Cold-rolled	77	27
Other	125	49
As at December 31,	2018	2017
<b>Financial position</b>		
Total assets	\$ 1,655	\$ 1,223
Total non-current liabilities	508	352

<sup>1</sup> The definition and reconciliation of these non-IFRS measures are included in the 'Non-IFRS Performance Measures' and 'Review of Non-IFRS Measures' sections of this MD&A.

### Review of Annual Financial Results

Net income for the year ended December 31, 2018 was \$253 million compared to a net loss of \$15 million for the six months ended December 31, 2017.

#### 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.

For 2018, the Company recorded revenue of \$2,460 million compared to \$788 million for the six months ended December 31, 2017. During 2018, revenue was impacted by a general improvement in the market price of steel, which reflects macroeconomic conditions around supply and demand for steel products. Selling price per nt increased by \$140 per nt, from \$749 per nt for the six months ended December 31, 2017 to \$889 per nt during 2018, reflecting the higher market prices for steel. Also in 2018, our non-steel revenue of \$130 million mostly consisted of metallurgical coke sales. Shipping volumes for 2018 of 2,620 thousand nt primarily included hot-rolled and coated products. The sales product mix for our highest steel shipments of hot-rolled and coated products represented approximately 79% and 13%, respectively, of the total sales volume for 2018, whereas in 2017 it was approximately 77% and 15%, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Gross profit

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

Gross profit of \$532 million during 2018, compared to \$72 million for the six months ended December 31, 2017, was impacted by revenue for the period (as discussed above) and a general increase in raw material costs, tariffs, freight costs and depreciation expense. Raw material costs increased period-over-period primarily due to the following; contractual price escalations related to our iron ore purchases, higher zinc and scrap metal costs and metallurgical coal consumption. The Company incurred approximately \$73 million of tariff related charges during 2018 in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

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

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

### Selling, general and administrative expenses

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

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
ERP	\$ 18	\$ 5
Employee salary and benefits expense	17	6
Professional, consulting and legal fees	9	4
Management fees	7	3
Initial public offering costs	—	20
Other <sup>1</sup>	5	9
	<b>\$ 56</b>	<b>\$ 47</b>

<sup>1</sup> Includes corporate and travel related expenses.

SG&A expenses for 2018 primarily includes the following: \$18 million in ERP implementation expenses relating to the separation from USS, \$17 million in corporate and administrative employee salaries and benefits, \$9 million in professional, consulting and legal fees and \$7 million in management fees to an affiliate of Bedrock. During 2017, our SG&A expenses also included \$20 million in IPO costs.

### Finance costs

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
Remeasurement of employee benefit commitment <sup>1</sup>	\$ 144	\$ 10
Accretion of employee benefit commitment	43	17
Interest on loans and borrowings	14	2
Accretion on financial lease obligation	1	2
Foreign exchange loss (gain)	14	(1)
Other	(1)	3
	<b>\$ 215</b>	<b>\$ 33</b>

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

Finance costs for 2018 of \$215 million compared to \$33 million for the six months ended December 31, 2017, included the impacts of remeasurement and accretion expenses associated with our employee benefit commitment obligation, foreign exchange loss and interest on loans and borrowings.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

During June 2018, in connection with the Amended OPEB Funding Agreement (discussed further in the 'Business Overview' section of this MD&A), Stelco incurred a remeasurement charge of \$157 million related to the employee benefit commitment, derived as the difference between the estimated discounted cash flows from the Original OPEB Funding Agreement compared to those from the Amended OPEB Funding Agreement. The employee benefit commitment (including both the Original and Amended OPEB Funding Agreements) consists of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. Due to the nature of the underlying estimates, assumptions and its long-term nature, the employee benefit commitment is sensitive to changes in these estimates and assumptions. Estimates of expected cash flows are revisited at the end of each reporting period to determine the carrying amount of amortized cost. Refer to note 17 of the Consolidated Financial Statements for further details.

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

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

### Finance and other income (loss)

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
Loss on commodity-based swaps	\$ (10)	\$ —
Finance income	4	—
Other income	9	—
	<b>\$ 3</b>	<b>\$ —</b>

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.

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

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

### Restructuring and other costs

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

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
Consulting and monitor costs <sup>1</sup>	\$ 2	\$ 1
Legal costs <sup>1</sup>	1	3
Other <sup>2</sup>	6	2
	<b>\$ 9</b>	<b>\$ 6</b>

1. Consulting and legal costs are expected to continue into 2019.

2. Other includes building related costs incurred by Stelco related to the Land Vehicle and utility costs incurred by Stelco for non-operating and idled assets prior to their acquisition from the Land Vehicle on June 5, 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Review of Non-IFRS Measures

#### Adjusted net income

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

(millions of Canadian dollars, except where otherwise noted)	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Net income (loss)</b>	<b>\$ 253</b>	<b>\$ (15)</b>
Add back/(Deduct):		
Remeasurement of employee benefit commitment <sup>1</sup>	144	10
Separation costs related to USS support services <sup>2</sup>	20	7
Restructuring and other costs <sup>3</sup>	9	6
Property related idle costs included in cost of goods sold <sup>4</sup>	5	—
Income related to buildings finance lease termination <sup>5</sup>	(3)	—
Secondary offering costs	1	—
Loss from commodity-based swaps	10	—
Provision on pension and other post-employment benefits <sup>6</sup>	—	2
Fair value impact on acquired inventory recorded in cost of goods sold <sup>7</sup>	—	11
Initial public offering costs <sup>8</sup>	—	20
<b>Adjusted net income</b>	<b>\$ 439</b>	<b>\$ 41</b>

1. Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees and other restructuring related costs. Stelco Inc. implemented its CCAA plan on June 30, 2017.
4. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
5. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
6. Represents difference between total cash funding obligation for pensions and OPEBs.
7. Represents the difference between the fair value of inventory acquired by the Company and book value of Stelco's inventory at the date of acquisition.
8. Represents initial public offering costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Adjusted EBITDA and Tariff Adjusted EBITDA

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

(millions of Canadian dollars, except where otherwise noted)	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Net income (loss)</b>	<b>\$ 253</b>	<b>\$ (15)</b>
Add back/(Deduct):		
Finance costs	215	33
Depreciation	35	12
Separation costs related to USS support services <sup>1</sup>	20	7
Loss from commodity-based swaps	10	—
Restructuring and other costs <sup>2</sup>	9	6
Property related idle costs included in cost of goods sold <sup>3</sup>	5	—
Secondary offering costs	1	—
Finance income	(4)	—
Income related to buildings finance lease termination <sup>4</sup>	(3)	—
Initial public offering costs <sup>5</sup>	—	20
Fair value impact on acquired inventory recorded in cost of goods sold <sup>6</sup>	—	11
Provision on pension and other post-employment benefits <sup>7</sup>	—	2
<b>Adjusted EBITDA</b>	<b>\$ 541</b>	<b>\$ 76</b>
Add back: Tariff related costs <sup>8</sup>	73	—
<b>Tariff Adjusted EBITDA</b>	<b>\$ 614</b>	<b>\$ 76</b>
<b>Percentage of total revenue:</b>		
<b>Adjusted EBITDA</b>	<b>22%</b>	<b>10%</b>
<b>Tariff Adjusted EBITDA</b>	<b>25%</b>	<b>10%</b>

1. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
2. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees and other restructuring related costs. Stelco Inc. implemented its CCAA plan on June 30, 2017.
3. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
4. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
5. Represents initial public offering costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.
6. Represents the difference between the fair value of inventory acquired by the Company and book value of Stelco's inventory at the date of acquisition.
7. Represents difference between total cash funding obligation for pensions and OPEBs.
8. Includes tariff and tariff related costs connected with U.S. bound steel shipments.

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

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

#### Other Non-IFRS Measures

##### Selling price per net ton

Selling price per nt increased by \$140 per nt or 19%, from \$749 per nt for the six months ended December 31, 2017 to \$889 per nt for 2018. The increase in the selling price per nt was due to a general improvement of the market price of steel. Our shipping volumes increased to 2,620 thousand nt in 2018 from 1,003 thousand nt during the six months ended December 31, 2017, comprising mostly of hot-rolled and coated products. The sales product mix for our hot-rolled and coated products represented approximately 79% and 13%, respectively, of the total sales volume in 2018, whereas for the six months of December 31, 2017 was approximately 77% and 15% respectively.

##### Shipping Volume

Shipping volume increased 1.6 million nt or 161%, from 1.0 million nt for the six months ended December 31, 2017 to 2.6 million nt for 2018. Our steel shipments for 2018 included 2.1 million nt of hot rolled coils, 338 thousand nt of coated coils, 77 thousand nt of cold-rolled coils and 125 thousand nt of other shipments (including non-prime coils).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Review of Balance Sheets

The following table provides selected balance sheet information as indicated:

(millions of Canadian dollars)

As at December 31,	2018	2017
Cash and cash equivalents	\$ 438	\$ 250
Trade and other receivables	252	204
Inventories	468	448
Property, plant and equipment	448	279
<b>Total assets</b>	<b>\$ 1,655</b>	<b>\$ 1,223</b>
Trade and other payables	436	309
Other liabilities	53	68
Obligations to independent employee trusts	591	344
<b>Total liabilities</b>	<b>\$ 1,087</b>	<b>\$ 726</b>
<b>Total equity</b>	<b>\$ 568</b>	<b>\$ 497</b>

As reflected in the selected balance sheet information above, between December 31, 2017 and December 31, 2018, the Company increased trade and other receivables from \$204 million to \$252 million (an increase of \$49 million or 24%), increased trade and other payables from \$309 million to \$436 million (an increase of \$127 million, or 41%), reduced other liabilities from \$68 million to \$53 million (a reduction of \$15 million, or 22%), increased total liabilities from \$726 million to \$1.1 billion (an increase of \$361 million, or 50%), and increased total equity from \$497 million to \$568 million (an increase of \$71 million or 14%).

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

Property, plant and equipment increased to \$448 million at December 31, 2018 from \$279 million at December 31, 2017, mainly due to our acquisition of the Lands and capital expenditures related to normative and growth projects at our blast furnace, hot strip mill and other capital assets relating to operations, partly offset by depreciation expense for the year. Refer to note 11 to the Consolidated Financial Statements for further details regarding the Lands acquisition.

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

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

We expect our cashflow from operations to be favourably impacted in the short to medium term due to substantial tax attributes which, as at December 31, 2018, can shield pre-tax income of approximately \$814 million (or approximately \$204 million on an after tax basis) from taxation. These tax attributes include non-capital loss carry forwards of \$380 million (\$95 million after tax), undepreciated capital cost deductions (UCC) of \$398 million (\$100 million after tax) and scientific research and experimental development (SRED) deductions of \$36 million (\$9 million after tax), which are expected to reduce the amount of taxes otherwise payable by Stelco Inc. and form part of future deposits into the ELHTs. Refer to 'Commitments and Contingencies - Employee Benefit Commitments' section in this MD&A for further details.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Review of Cash Flows

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

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 250</b>	<b>\$ 30</b>
Cash provided by (used in):		
Operating activities	<b>390</b>	(35)
Investing activities	<b>(97)</b>	(14)
Financing activities	<b>(105)</b>	269
<b>Cash and cash equivalents, end of period</b>	<b>\$ 438</b>	<b>\$ 250</b>

#### *Cash provided by Operating Activities*

For 2018, cash provided by operating activities totaled \$390 million compared to cash used in operating activities of \$35 million for the six months ended December 31, 2017. Cash provided by operating activities for 2018 benefited from higher gross profit due to increased steel prices and shipping volumes, partly offset by the impact of working capital, from the timing of cash disbursements and receipts of inventory related items compared to December 31, 2017.

#### *Cash used in Investing Activities*

For 2018, cash used in investing activities totaled \$97 million compared to \$14 million for the six months ended December 31, 2017. Cash used in investing activities for 2018 included capital expenditures of \$101 million primarily related to normative and growth projects at our blast furnace, hot strip mill and other capital assets relating to operations. Partly offsetting our cash used for capital expenditures during the year, was a \$4 million decrease in restricted cash in connection with funds held by the monitor as part of the CCAA proceedings.

#### *Cash used in Financing Activities*

For 2018, cash used in financing activities totaled \$105 million which includes \$186 million in dividends paid to common shareholders, inventory monetization arrangement net proceeds of \$83 million; and asset-based lending facility draws and repayments of \$79 million and \$80 million respectively, during the year.

#### *Difference between cash flows provided by operating activities and dividends to common shareholders*

A comparison of dividends to shareholders with cash flows provided by operating activities is as follows:

(millions of Canadian dollars)	Year ended December 31, 2018	Six months ended December 31, 2017
Cash provided by (used in) operating activities	<b>\$ 390</b>	<b>\$ (35)</b>
Less: Change in non-cash working capital and other operating activities	<b>(76)</b>	(61)
Cash flow provided by operating activities, excluding non-cash working capital and other operating items	<b>466</b>	26
Less: Dividends paid to common shareholders	<b>186</b>	—
Excess	<b>\$ 280</b>	<b>\$ 26</b>

### Results of Operations

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

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

We executed a number of strategic outages during 2018, including at our hot strip mill through the addition of hydraulic automatic gauge control on the first two finishing mill stands. The outages were intended to improve reliability and efficiency, and were in

## MANAGEMENT'S DISCUSSION AND ANALYSIS

preparation for hot strip mill enhancements planned for the second half of 2018 and 2019. In connection with our strategic capital expenditure program aimed at improving our product mix to focus on more advanced steel products, including AHSS and UHSS grades, we are planning to continue enhancing our production capabilities and controls over our hot rolled steel products.

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

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

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

Our target shipments of 3.0 - 3.2 million nt by 2022 is dependent on, *inter alia*, overall product mix, customer demand and the results of our blast furnace reline. From 2017 to the end of 2018, the Company has increased its shipments by 617 thousand nt, to 2.62 million nt on an annualized basis, or 31% year-over-year. Actual future product mix may differ materially from our current product mix. See "Forward-Looking Information" for a discussion of the uncertainties, risks and assumptions associated with this statement.

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

### Capital Resources and Liquidity

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

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

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

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

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

- the Company's overall working capital position was significantly improved because of the CCAA restructuring;
- the Company has negotiated favourable payment terms with its vendors, thereby improving its working capital without the need for additional funding;
- as at December 31, 2018, Stelco Holdings had a cash balance of \$438 million and \$303 million available under the asset-based lending facility; and
- the inventory monetization arrangement continues to provide Stelco Inc. liquidity on certain of its raw material purchases.

### Credit Facility and Other Arrangements

#### Asset-Based Lending (ABL) Facility

In connection with Stelco's emergence from CCAA, the Company entered into an asset-based lending (ABL) agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of \$375 million. The amount available to be drawn under the ABL credit facility will vary from time to time, based upon a borrowing base determined with reference to the Company's trade receivables and certain inventory balances. At December 31, 2018, the available borrowing base was \$303 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

### Inventory Monetization Arrangement

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

In November 2018, Stelco Inc. entered into an amended inventory monetization arrangement for which terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) adjusted volume quantity limits of raw materials eligible to be financed through this arrangement, ii) change of the original financing rate to LIBOR plus a margin of 2.50%, and iii) the amended agreement has an option for Stelco Inc. to terminate the arrangement early on either July 31, 2019 or August 30, 2019. Amounts advanced under the amended inventory monetization arrangement are required to be repaid on the earlier of: (i) the early termination of the facility; and (ii) the expiry of the facility on September 30, 2019. As of December 31, 2018 US\$158 million (December 31, 2017 - US\$97 million) was drawn on the facility.

As at December 31, 2018, amounts advanced under this arrangement were \$216 million compared to \$121 million as at December 31, 2017. Cash amounts advanced under this arrangement represent a financial liability to the Company which is recorded within trade and other payables on the Company's statement of financial position. This financing arrangement is secured by inventory, with a carrying value of \$225 million, serving as collateral. The weighted average finance rate for the inventory monetization arrangement for the year ended December 31, 2018 was 5.36%.

### Share Capital

The Company'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 year ended December 31, 2018. Refer to note 19 of the Consolidated Financial Statements for further details.

### 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 will regularly review the Company's rate of dividends to ensure an appropriate level of dividends.

### Common Share Dividends

Common share dividends declared in 2018 were as follows:

(millions of Canadian dollars, except per share amounts)		Cash dividend per common share	Total dividend amount
Record date	Payment date		
March 7, 2018	March 12, 2018	\$ 0.10	\$ 9
May 15, 2018	May 18, 2018	0.10	9
August 10, 2018	August 15, 2018	1.69	150
August 10, 2018	August 17, 2018	0.10	9
November 23, 2018	November 28, 2018	0.10	9

## MANAGEMENT'S DISCUSSION AND ANALYSIS

On July 31, 2018, the Board of Directors declared a special dividend of \$1.69 per common share, paid on August 15, 2018 to shareholders of record as of August 10, 2018. This special cash dividend represented excess cash arising from the Company's positive financial performance during the first half of 2018.

At its most recent meeting on February 15, 2019, the Board of Directors declared a special dividend of \$1.13 per common share, payable on March 20, 2019, to the shareholders of record as of March 13, 2019 and a quarterly cash dividend of \$0.10 per common share, payable on March 22, 2019 to shareholders of record as of March 13, 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 Toronto Stock Exchange (TSX) of its notice of intention to launch a normal course issuer bid (NCIB). Under the NCIB, Stelco Holdings may purchase up to a maximum of 4,440,681 common shares or approximately 5% of its 88,813,637 common shares outstanding as of November 13, 2018. The Company intends to fund the purchases primarily from excess working capital and common shares repurchased under the NCIB will be canceled.

Repurchases will be made through the facilities of the TSX as well as through other designated exchanges and alternative trading systems in Canada in accordance with applicable regulatory requirements. The price paid for such repurchased shares will be the market price of such shares at the time of acquisition or such other price as may be permitted by the TSX.

Stelco Holdings' management and Board of Directors believe that the underlying value of the Company may not be reflected in the market price of the common shares from time to time and that, accordingly, the purchase of common shares will increase the proportionate interest in the Company of, and be advantageous to, all remaining shareholders of the Company.

### ***Treasury shares***

During the year ended December 31, 2018, 56,600 common shares were repurchased by the Company under the NCIB, which had not yet been canceled at December 31, 2018, for a total cost of \$1 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.
- Transition Services Agreements - USS agreed to continue to provide certain business and transition services to Stelco Inc. for a maximum term expiring no later than June 30, 2019.
- Union Agreements - Stelco Inc. has collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending July 1, 2022.

### **Operating Leases**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Finance Leases

As at December 31, 2018, the Company has a finance lease obligation with a carrying amount of \$8 million (December 31, 2017 - \$25 million, includes buildings and equipment leases), associated with certain equipment on its Consolidated Balance Sheets. During the second quarter of 2018, Stelco Inc. acquired the Lands from the Land Vehicle resulting in the derecognition of the Company's building finance lease obligation of \$24 million. Refer to note 11 of the Consolidated Financial Statements for further details.

### Claims and litigation

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

### Contractual Obligations

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

(millions of Canadian dollars)	Payments due by period			
	Total	2019	2020 to 2023	Thereafter
Trade payables	\$ 219	\$ 219	\$ —	\$ —
Inventory monetization arrangement	216	216	—	—
Operating leases	7	5	2	—
Finance lease obligations	9	1	4	4
Purchase obligations - non-capital <sup>1</sup>	836	633	125	78
Purchase obligations - capital	52	49	3	—
Obligations to independent employee trusts <sup>2</sup>	1,186	112	275	799
<b>Total Contractual Obligations</b>	<b>\$ 2,525</b>	<b>\$ 1,235</b>	<b>\$ 409</b>	<b>\$ 881</b>

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

<sup>2</sup> 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.

### Cap and trade regulation update

As discussed further in the 'Health, Safety and Environment' section of this MD&A, on July 3, 2018, the Government of Ontario revoked the Cap and Trade Regulation and all the other regulations under the Climate Change Mitigation and Low-carbon Economy Act, 2016, effectively ceasing Ontario's Cap and Trade Program. Without a cap and trade system or carbon tax in place that meets the minimum federal requirements, the province of Ontario is expected to be subject to the federal carbon pricing legislation, the Greenhouse Gas Pollution Pricing Act, also called the 'Federal Backstop', which received Royal Assent in June 2018.

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

### Related Party Transactions

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

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

### Subsidiaries

Transactions between Stelco 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 executive senior leadership team (ESLT). The ESLT is comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice-President and General Counsel & Corporate Secretary of the Company.

During the year ended December 31, 2018, the Company recorded \$4 million (six months ended December 31, 2017 - \$2 million) as an expense related to key management personnel salaries and benefits, post-employment pension, and medical and termination benefits.

During the year ended December 31, 2018, the company recorded \$0.1 million (six months ended December 31, 2017 - \$0.1 million) in directors' fees.

### Long-term incentive plan

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

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

#### *Restricted Share Units*

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

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 payment date to the participant in respect of vested RSUs within 30 days of the vesting date. Dividends declared on common shares accrue to the RSU holder in the form of additional RSUs.

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

#### *Share options*

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

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

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

### Deferred share unit plan

The Company has a deferred share unit (DSU) plan for its independent directors which provides that each independent director receives, on each date that the director fees are payable, an amount of DSUs which the director has elected. Each independent director can elect annually a specified percentage of director fees or compensation as DSUs. The number of DSUs granted to an independent director is based on the closing price of the Company's common shares on the Toronto Stock Exchange on the grant date. At such time as an independent director ceases to be a director, the Company will make a cash payment on the outstanding DSUs. As of December 31, 2018, there were 21,683 DSUs outstanding, for which the Company recognized a liability of \$0.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)

As at and for the three months ended<sup>1</sup>

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2 <sup>3</sup>	Q1 <sup>3</sup>
<b>Financial results</b>								
Total revenue	\$ 648	\$ 619	\$ 711	\$ 482	\$ 452	\$ 336	\$ 427	\$ 386
Steel products	617	574	672	467	425	326	415	380
Non-steel products	31	45	39	15	27	10	12	6
Gross profit (loss)	134	151	177	70	73	(1)	65	46
Selling, general and administrative expenses	16	13	15	12	31	16	40	10
Net income (loss)	110	125	(11)	29	15	(30)	3,593	(17)
Adjusted net income (loss) <sup>2</sup>	100	135	154	50	52	(11)	(3)	8
Adjusted EBITDA <sup>2</sup>	144	154	174	69	69	7	76	64
Tariff Adjusted EBITDA <sup>2</sup>	167	193	185	69	69	7	76	64
<b>Per common share (basic and diluted)</b>								
Net income (loss)	\$ 1.23	\$ 1.41	\$(0.12)	\$ 0.33	\$ 0.21	\$(0.40)	n.a.	n.a.
Adjusted net income (loss) <sup>2</sup>	\$ 1.13	\$ 1.52	\$ 1.73	\$ 0.56	\$ 0.67	\$(0.15)	n.a.	n.a.
Common shareholder dividends	\$ 0.10	\$ 1.79	\$ 0.10	\$ 0.10	\$ —	\$ —	n.a.	n.a.
<b>Financial position</b>								
Total assets	1,655	1,449	1,492	1,121	1,223	n.a.	854	n.a.
Total non-current liabilities	508	519	508	333	352	n.a.	392	n.a.
<b>Operating results</b>								
Selling Price per nt (in dollars per nt) <sup>2</sup>	917	980	898	762	718	793	828	762
Adjusted EBITDA per nt (in dollars per nt) <sup>2</sup>	214	263	233	113	117	17	151	128
Tariff Adjusted EBITDA per nt (in dollars per nt) <sup>2</sup>	248	329	247	113	117	17	151	128
Shipping volumes (in thousands of nt) <sup>2</sup>	673	586	748	613	592	411	501	499
Hot-rolled	553	446	590	491	473	299	359	340
Coated	79	82	93	84	77	78	103	121
Cold-rolled	10	19	33	15	15	12	17	14
Other	31	39	32	23	27	22	22	24

n.a. - not applicable.

1. Period end date refers to the following: "Q4" - December 31, "Q3" - September 30, "Q2" - June 30, and "Q1" - March 31.
2. The definition and reconciliation of these non-IFRS measures are included in the "Non-IFRS Performance Measures" and "Review of Non-IFRS Measures" sections of this MD&A.
3. Financial information for these respective periods pertain to Stelco Inc. prior to the acquisition by Bedrock.

### Trend Analysis

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

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

Revenue increased 48% from \$482 million in Q1 2018 to \$711 million in Q2 2018. The increase in revenue reflects a 22% increase in steel selling volumes from 613k nt in Q1 2018 to 748k nt in Q2 2018, and an 18% increase in average selling price which increased from \$762/nt in Q1 2018 to \$898/nt in Q2 2018. Investments in logistics capabilities, including rail and barge shipping, significantly

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

With the exception of Q2 2018, net income (loss) has shown improvement since Q3 2017. 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 Lands acquisition.

With the exception of Q3 2017, Adjusted EBITDA improved in 2017 due to generally higher revenues from market steel price increases and higher sales volumes (as noted above). During Q3 2017, consistent with the realized gross profit (as discussed above) for the period, Adjusted EBITDA was lower than the comparable periods in 2017, primarily due to the same factors impacting gross profit above. Adjusted EBITDA improved significantly in Q2 2018 over Q1 2018, increasing 150% from \$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. 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. Adjusted EBITDA has decreased since Q2 2018 primarily due to the same factors described for gross profit above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Unaudited Consolidated Statements of Income

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
Revenue from sale of goods	\$ 648	\$ 452
Cost of goods sold	514	379
<b>Gross profit</b>	<b>134</b>	<b>73</b>
Selling, general and administrative expenses	16	31
<b>Operating income</b>	<b>118</b>	<b>42</b>
<b>Other income (loss) and (expenses)</b>		
Finance and other income	10	—
Finance costs	(17)	(21)
Restructuring and other costs	(1)	(5)
Share of loss from joint ventures	—	(1)
<b>Income before income taxes</b>	<b>110</b>	<b>15</b>
Income tax expense	—	—
<b>Net income</b>	<b>\$ 110</b>	<b>\$ 15</b>

### Review of Fourth Quarter Financial Results

Net income for the fourth quarter of 2018 was \$110 million compared to \$15 million for the same period during 2017, representing an increase of \$95 million which is primarily due to the net effect of the following:

- \$61 million increase in gross profit from \$196 million higher revenue from sale of goods partly offset by \$135 million increase in cost of goods sold;
- \$15 million decrease in selling, general and administration expenses;
- \$10 million higher finance and other income;
- \$4 million decrease in finance costs; and
- \$4 million lower restructuring and other costs.

### Revenue

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

### Gross profit

Gross profit increased by \$61 million, from \$73 million in Q4 2017 to \$134 million in Q4 2018 mainly due to higher revenue, partly offset by an increase in cost of goods sold. The higher cost of goods sold was mainly attributed to higher shipping volumes and an increase in raw material costs, tariffs, freight costs and depreciation expense. Raw material costs increased period-over-period primarily due to the following; contractual price escalations related to our iron ore purchases and scrap metal costs, partly offset by lower metallurgical coal and zinc prices. The Company incurred approximately \$23 million of tariff related charges during the fourth quarter of 2018 in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Selling, general and administrative expenses

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
Employee (active) salary and benefits expense	\$ 5	\$ 4
ERP implementation	4	5
Management fees	3	2
Professional, consulting and legal fees	3	2
Initial public offering costs	—	16
Other	1	2
	<b>\$ 16</b>	<b>\$ 31</b>

SG&A expenses for the fourth quarter of 2018 primarily includes the following: \$5 million in corporate and administrative employee salaries and benefits, \$4 million in ERP implementation expenses relating to the separation from USS and \$3 million in fees related to management services provided by an affiliate of Bedrock during the period. During 2017, our SG&A expenses also included \$16 million in IPO costs.

Costs related to the establishment of our new cloud based ERP system do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

### Finance costs

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
Remeasurement of employee benefit commitment <sup>1</sup>	\$ (15)	\$ 10
Accretion of employee benefit commitment	12	9
Interest on loans and borrowings	5	1
Foreign exchange loss (gain)	15	(2)
Accretion on financial lease obligation	—	1
Other	—	2
	<b>\$ 17</b>	<b>\$ 21</b>

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

Finance costs for the quarter of \$17 million decreased \$4 million compared to \$21 million during the same period of 2017, due to the following; \$25 million period-over-period gross remeasurement recovery on our employee benefit commitment due to a change in timing of estimated cash flows and future funding requirements and \$1 million lower accretion on financial lease obligations and other finance costs, partly offset by \$17 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital, \$4 million increase in interest on loans and borrowings and \$3 million higher accretion expense associated with our employee benefit commitment obligation.

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

### Finance and other income

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
Finance income	1	—
Other income	9	—
	<b>\$ 10</b>	<b>\$ —</b>

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Review of Non-IFRS Measures Fourth Quarter Results

#### Adjusted net income

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

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
<b>Net income</b>	<b>\$ 110</b>	<b>\$ 15</b>
Add back/(Deduct):		
Remeasurement of employee benefit commitment <sup>1</sup>	<b>(15)</b>	10
Separation costs related to USS support services <sup>2</sup>	<b>5</b>	6
Restructuring and other costs <sup>3</sup>	<b>1</b>	5
Property related idle costs included in cost of goods sold <sup>4</sup>	<b>2</b>	—
Income related to buildings finance lease termination <sup>5</sup>	<b>(3)</b>	—
Initial public offering costs <sup>6</sup>	<b>—</b>	16
<b>Adjusted net income</b>	<b>\$ 100</b>	<b>\$ 52</b>

1. Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
3. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
4. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
5. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
6. Represents initial public offering costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.

Adjusted net income for the quarter was \$100 million compared to an adjusted net income of \$52 million for Q4 2017 representing an increase of \$48 million which is primarily due to the following:

- \$63 million increase in gross profit (adjusted for higher property related idle costs included in cost of goods sold of \$2 million); and
- \$7 million increase in finance and other income (adjusted for income related to buildings finance lease termination of \$3 million); partly offset by
- \$21 million higher finance costs (adjusted for a gross increase in remeasurement recovery from the employee benefit commitment of \$25 million); and
- \$2 million higher selling, general and administrative expenses (adjusted for lower initial public offering costs of \$16 million and lower ERP implementation costs of \$1 million).

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Adjusted EBITDA

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

(millions of Canadian dollars)

Three months ended December 31,	2018	2017
<b>Net income</b>	<b>\$ 110</b>	<b>\$ 15</b>
Add back/(Deduct):		
Finance costs	17	21
Depreciation	13	6
Separation costs related to USS support services <sup>1</sup>	5	6
Restructuring and other costs <sup>2</sup>	1	5
Property related idle costs included in cost of goods sold <sup>3</sup>	2	—
Income related to buildings finance lease termination <sup>4</sup>	(3)	—
Finance income	(1)	—
Initial public offering costs <sup>5</sup>	—	16
<b>Adjusted EBITDA</b>	<b>\$ 144</b>	<b>\$ 69</b>
Add back: Tariff related costs <sup>6</sup>	23	—
<b>Tariff Adjusted EBITDA</b>	<b>\$ 167</b>	<b>\$ 69</b>
<b>Percentage of total revenue:</b>		
<b>Adjusted EBITDA</b>	<b>22%</b>	<b>15%</b>
<b>Tariff Adjusted EBITDA</b>	<b>26%</b>	<b>15%</b>

1. Includes ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
2. Restructuring costs relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and includes other restructuring related costs. The Company implemented its CCAA plan on June 30, 2017.
3. Includes utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
4. Represents the recovery of accretion and depreciation expense in connection with the termination of buildings finance lease associated with the Lands acquisition.
5. Represents initial public offering costs that relate to advisory, professional and legal fees, as well as printing costs incurred which were not eligible for capitalization to equity as a cost of capital.
6. Includes tariff and tariff related costs connected with U.S. bound steel shipments.

#### Adjusted EBITDA

Adjusted EBITDA for the quarter was \$144 million compared to \$69 million for Q4 2017 representing an increase of \$75 million which is primarily due to the following:

- \$70 million increase in gross profit (adjusted for an increase in depreciation expense of \$7 million and higher property related idle costs included in cost of goods sold of \$2 million); and
- \$7 million increase in other income (adjusted for income related to buildings finance lease termination of \$3 million); partly offset by
- \$2 million lower selling, general and administrative expenses (adjusted for lower initial public offering costs of \$16 million and lower ERP implementation costs of \$1 million).

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

### Other Non-IFRS Measures

#### Selling price per net ton

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

#### Adjusted EBITDA per net ton

Adjusted EBITDA per nt increased by \$97 per nt, from \$117 per nt in Q4 2017 to \$214 per nt in Q4 2018, as a result of an increase of Adjusted EBITDA of \$75 million, partly offset by an increase of 81 thousand nt increase in shipping volumes.

#### Shipping Volume

Shipping volume increased 81 thousand nt or 14%, from 592 thousand nt in Q4 2017 to 673 thousand nt in Q4 2018. Hot-rolled coil shipments increased 17% from 473 thousand nt in Q4 2017 to 553 thousand nt in Q4 2018. Coated shipments increased 3% from 77 thousand nt in Q4 2017 to 79 thousand nt in Q4 2018. Cold-rolled coil shipments decreased 33% from 15 thousand nt in

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Q4 2017 to 10 thousand nt in Q4 2018. Other shipments (including non-prime coils) increased 15% from 27 thousand nt in Q4 2017 to 31 thousand nt in Q4 2018.

### Significant Accounting Policies

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

#### *Judgments*

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

#### *Estimations and Assumptions*

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

#### *Employee benefit commitment*

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

#### *Pension and other post-employment benefits*

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

#### *Allowance for doubtful accounts*

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

#### *Impairment of non-financial assets*

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

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

#### *Income taxes*

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Changes in accounting policies

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

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

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

#### IFRS 9 - Financial instruments (IFRS 9)

IFRS 9 introduced new requirements for the classification, measurement and impairment of financial instruments as well as hedge accounting. The Company adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption of this standard did not have an impact on the Consolidated Financial Statements.

#### Weighted average method for raw material inventory cost measurement

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

### Future Changes in Accounting Policies

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

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

#### IFRS 16 - Leases (IFRS 16)

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. Obligations under operating leases and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. In connection with Stelco's land and buildings acquisition from Legacy Lands Limited Partnership (the Land Vehicle) and concurrent termination of associated lease arrangements discussed further in note 11, the Company does not expect a significant impact to Stelco's Consolidated Financial Statements on adoption of this IFRS.

#### IFRIC 23 - Uncertainty over Income Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, and the Company does not expect a significant impact to Stelco's Consolidated Financial Statements on adoption of this IFRS.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

### Disclosure Controls and Procedures (DCP)

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

- i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and
- (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Internal Controls over Financial Reporting (ICFR)

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

- (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances;
- (ii) the impact of any undetected errors; and
- (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

#### **ERP implementation**

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

Management employed appropriate procedures to ensure internal controls were in place during and after the conversion.

### Risk and Uncertainties

#### **Financial Risk Management**

The Company's activities expose it to a variety of financial risks including price risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and risks related to pensions. For a discussion of other risks the Company is exposed to, please refer to the heading "Risk Factors" in the Annual Information Form of Stelco Holdings dated February 15, 2019 and filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### **Price risk**

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

#### **Foreign currency risk**

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

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

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

#### **Interest rate risk**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Credit risk

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

#### *Trade receivables*

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

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

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL. Trade receivables together with the associated allowance, are written off when there is no realistic prospect of future recovery.

#### *Concentration of credit*

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

### Liquidity risk

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

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

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

### Pensions - defined benefit plans

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Corporate Information

### Executive Management

**Alan Kestenbaum**  
Chief Executive Officer

**Don Newman**  
Chief Financial Officer

**Sujit Sanyal**  
Chief Operating Officer

**David Cheney**  
Executive Vice-President

**Paul Simon**  
General Counsel & Corporate Secretary

### Board of Directors

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

**Michael W. Dees**<sup>4,6</sup>  
Partner, Lindsay Goldberg

**Jeffrey B. Bunder**<sup>2</sup>  
Partner and Chief Financial Officer, Lindsay  
Goldberg

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

**Brian Levitt**<sup>2,3,6</sup>  
Chairman of the Board of Directors of the  
Toronto-Dominion Bank

**Peter Bowie**<sup>1</sup>  
Corporate Director

**Jacob Lew**  
Partner, Lindsay Goldberg

**Indira Samarasekera**<sup>5</sup>  
Corporate Director

<sup>1</sup> Chair of the Audit Committee.

<sup>2</sup> Member of the Audit Committee.

<sup>3</sup> Chair of the Compensation, Governance and Nominating  
Committee.

<sup>4</sup> Member of the Compensation, Governance and Nominating  
Committee.

<sup>5</sup> Chair of the Environmental, Health and Safety Committee

<sup>6</sup> Member of the Environmental, Health and Safety Committee

### Auditors

**KPMG LLP**  
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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.  
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L8N 3T1  
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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

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Consolidated Financial Statements

**Stelco Holdings Inc.**  
December 31, 2018 and 2017

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and Management's Discussion and Analysis (MD&A) have been prepared by management and approved by the Board of Directors of Stelco Holdings Inc. (the Company).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. In preparing this financial information, management must make determinations about the relevancy of information to be included, and estimates and assumptions that affect the reported information. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements and MD&A within acceptable limits of materiality and for the consistency of financial data included in the MD&A accompanying the consolidated financial statements.

In meeting management's responsibility to the integrity and fairness of the consolidated financial statements and MD&A, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; transactions are properly authorized; and financial records properly maintained to provide reliable information for the preparation of the consolidated financial statements.

In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Company has evaluated its internal and disclosure controls as at December 31, 2018, and has disclosed the results of this evaluation in its MD&A.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's external auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards. KPMG LLP has full access to the Audit Committee and meet with the Committee both in the presence of management and separately.

*(signed) Alan Kestenbaum*  
Alan Kestenbaum  
Chief Executive Officer

*(signed) Don Newman*  
Don Newman  
Chief Financial Officer

Hamilton, Canada  
February 15, 2019



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stelco Holdings Inc.

### *Opinion*

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

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

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

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

### *Basis for Opinion*

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

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

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

### *Other Information*

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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



We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

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

Hamilton, Canada

February 15, 2019

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

As at	Note	December 31, 2018	December 31, 2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents	6	\$ 438	\$ 250
Restricted cash	7	8	12
Trade and other receivables	8	252	204
Inventories	9	468	448
Prepaid expenses	10	28	18
Total current assets		\$ 1,194	\$ 932
Non-current assets			
Property, plant and equipment, net	11	448	279
Intangible assets	12	7	7
Investment in joint ventures	13	6	5
Total non-current assets		\$ 461	\$ 291
<b>Total assets</b>		<b>\$ 1,655</b>	<b>\$ 1,223</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	14	\$ 436	\$ 309
Other liabilities	15	40	33
Obligations to independent employee trusts	17	103	32
Total current liabilities		\$ 579	\$ 374
Non-current liabilities			
Provisions	18	5	5
Pension benefits	26	2	—
Other liabilities	15	13	35
Obligations to independent employee trusts	17	488	312
Total non-current liabilities		\$ 508	\$ 352
<b>Total liabilities</b>		<b>\$ 1,087</b>	<b>\$ 726</b>
<b>Equity</b>			
Common shares	19	512	512
Treasury shares	19	(1)	—
Retained earnings (deficit)		57	(15)
<b>Total equity</b>		<b>\$ 568</b>	<b>\$ 497</b>
<b>Total liabilities and equity</b>		<b>\$ 1,655</b>	<b>\$ 1,223</b>

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

On behalf of the Board of Directors

(signed) *Alan Kestenbaum*, Director

(signed) *Jeffrey Bunder*, Director

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

	Note	Year ended December 31, 2018	Six months ended December 31, 2017
Revenue from sale of goods	20	\$ 2,460	\$ 788
Cost of goods sold	21	1,928	716
<b>Gross profit</b>		<b>\$ 532</b>	<b>\$ 72</b>
Selling, general and administrative expenses	22	56	47
<b>Operating income</b>		<b>\$ 476</b>	<b>\$ 25</b>
<b>Other income (loss) and (expenses)</b>			
Finance and other income	24	3	—
Finance costs	23	(215)	(33)
Restructuring and other costs		(9)	(6)
Share of loss from joint ventures	13	(2)	(1)
<b>Income (loss) before income taxes</b>		<b>\$ 253</b>	<b>\$ (15)</b>
Income tax expense	25	—	—
<b>Net income (loss)</b>		<b>\$ 253</b>	<b>\$ (15)</b>
<b>Net income (loss) per share – basic and diluted</b>	29	<b>\$ 2.85</b>	<b>(0.19)</b>

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

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

	Note	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Net income (loss)</b>		\$ 253	\$ (15)
<b>Other comprehensive income:</b>			
Items that are not recycled or reclassified to income (loss):			
Remeasurement gain on pension benefit obligations, net of income tax	26	2	—
Remeasurement gain on defined benefit pension obligation of equity accounted investment	13	3	—
<b>Other comprehensive income, net of income taxes</b>		\$ 5	\$ —
<b>Comprehensive income (loss), net of income taxes</b>		\$ 258	\$ (15)

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

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

	Note	Number of common shares (in thousands)	Common shares	Treasury shares	Retained earnings (deficit)	Total equity
Balance, June 30, 2017		75,284 \$	285 \$	— \$	— \$	285
Changes during the period:						
Net loss		— \$	— \$	— \$	(15) \$	(15)
Share issuance		13,530 \$	230 \$	— \$	— \$	230
Transaction costs		— \$	(3) \$	— \$	— \$	(3)
Balance, December 31, 2017		88,814 \$	512 \$	— \$	(15) \$	497
Balance, January 1, 2018		88,814 \$	512 \$	— \$	(15) \$	497
Changes during the year:						
Net income		—	—	—	253	253
Other comprehensive income		—	—	—	5	5
Purchase of common shares for cancellation	19	(57)	—	(1)	—	(1)
Dividends to common shareholders	19	—	—	—	(186)	(186)
<b>Balance, December 31, 2018</b>		<b>88,757 \$</b>	<b>512 \$</b>	<b>(1) \$</b>	<b>57 \$</b>	<b>568</b>

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

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

	Note	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Operating activities</b>			
Net income (loss)		\$ 253	\$ (15)
Items not affecting cash:			
Depreciation		35	12
Share of loss from joint ventures		2	1
Provision for doubtful accounts (recovery)		(2)	1
Employee benefit commitment:			
Remeasurement costs		144	10
Accretion expense		43	17
Termination of lease related obligations	24	(9)	—
Change in non-cash working capital and other operating activities	28	(76)	(61)
<b>Cash provided by (used in) operating activities</b>		<b>\$ 390</b>	<b>\$ (35)</b>
<b>Investing activities</b>			
Capital expenditures on property, plant and equipment	28	(101)	(24)
Change in restricted cash		4	10
<b>Cash used in investing activities</b>		<b>\$ (97)</b>	<b>\$ (14)</b>
<b>Financing activities</b>			
Advances from asset-based lending facility, net of transaction costs		79	131
Repayment of asset-based lending facility		(80)	(210)
Repayment of mortgage principal		(1)	—
Proceeds from inventory monetization arrangement, net	14	83	121
Proceeds from issuance of shares		—	230
Transaction costs on issuance of shares		—	(3)
Dividends paid to common shareholders	19	(186)	—
<b>Cash provided by (used in) financing activities</b>		<b>\$ (105)</b>	<b>\$ 269</b>
Net increase in cash and cash equivalents		188	220
Cash and cash equivalents, beginning of year		250	30
<b>Cash and cash equivalents, end of year</b>		<b>\$ 438</b>	<b>\$ 250</b>
Cash flows provided by operating activities include:			
Interest paid		13	1
Interest received		5	1

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



## CONSOLIDATED FINANCIAL STATEMENTS

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

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# STELCO HOLDINGS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

### 1. CORPORATE INFORMATION

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

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

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

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

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

#### a) Statement of compliance

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

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

#### b) Basis of preparation

These Consolidated Financial Statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 30. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3. Certain comparative information has been reclassified to conform to the current year's presentation.

#### c) Principles of consolidation

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

##### *Subsidiaries*

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

The Company's subsidiaries are:

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

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

##### *Joint ventures*

Joint ventures are entities over which the Company has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

adjusted by Stelco's share of the results of operations and changes in the net assets of the joint venture. The financial statements of Stelco's joint ventures are prepared for the same reporting period as the Company and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of Stelco.

#### d) Common control transaction

Stelco Holdings' acquisition of Stelco on November 10, 2017 was a business acquisition involving entities under common control in which all of the combining entities are ultimately controlled by Bedrock, both before and after the transaction was completed. The Company accounted for this common control transaction in a manner similar to a pooling of interest method applied from June 30, 2017, which is the date that Bedrock acquired Stelco.

This method requires the financial statements to be restated for periods prior to the date of obtaining common control, to reflect the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed. As a result, the comparative periods in Stelco's Consolidated Statements of Income (Loss), Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Cash Flows present the six months ending December 31, 2017 to reflect the period of Stelco Holdings' common control of Stelco.

The acquisition of Stelco on June 30, 2017 was accounted for by Bedrock Industries B.V. as a business combination at fair value in accordance with IFRS 3 *Business Combinations*. Bedrock Industries B.V. paid total cash consideration in the amount of \$70 million to acquire Stelco. The business combination occurred coincident with Stelco's emergence from CCAA on June 30, 2017, and the acquired assets and assumed liabilities were adjusted to their fair values assigned through completion of a preliminary purchase price allocation, as described below. The preliminary amounts determined in the purchase price allocation could be materially different depending on the outcome of the finalization of the analysis of fair values. The purchase price allocation for the acquisition reflects preliminary estimates and analysis, including work performed by third-party valuation specialists which are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized and management continues to review relate to the fair value estimates of certain property, plant and equipment, and the employee benefit commitment.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Revenue recognition

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

Revenue from the sale of goods is recognized to the extent that it is probable that the economic benefits will flow to the Company, can be reliably measured, and when the performance obligation is satisfied by transferring the promised good to a customer. A good is considered transferred when the customer obtains control, which is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of an asset.

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

#### b) Foreign currency translation

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

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

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

# STELCO HOLDINGS INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

### c) Income taxes

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

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

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

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

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

### d) Inventories

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

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

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

### e) Property, plant and equipment

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

Estimated useful lives of major asset categories

Buildings	35 years
Machinery and equipment	5 - 40 years
Vehicles	4 - 15 years

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

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

Major repairs and upgrades are recognized separately and depreciated over their useful lives, all other repair and maintenance costs are expensed as incurred.

#### f) Impairment of non-financial assets

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

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

#### g) Financial instruments

Stelco's financial assets and liabilities (financial instruments) include cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables, certain other liabilities, mortgage payable, as well as employee benefit commitments.

The classification of financial instruments is typically determined at the time of initial recognition, within the following categories:

- Amortized cost
- Fair value through income or loss
- Fair value through other comprehensive income

##### *Financial instruments carried at fair value through income or loss*

Financial instruments in this category include derivative financial instruments which are presented on the Consolidated Balance Sheets as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

##### *Financial instruments carried at amortized cost*

Financial instruments in this category include cash and cash equivalents, trade and other receivables, trade and other payables, certain other liabilities, mortgage payable and the employee benefit commitment. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Trade and other receivables include originated and purchased non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment.

Trade and other payables, mortgage payable (including the current portion of mortgage payable), the employee benefit commitment, as well as the finance lease obligations, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the Consolidated Statements of Income (Loss).

##### *Impairment of financial assets carried at amortized cost*

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL.

Financial assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in the Consolidated Statements of Income (Loss).

## **STELCO HOLDINGS INC.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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#### **h) Fair value measurement**

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable, supported by little or no market activity.

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

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

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

#### **i) Provisions**

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

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

#### **j) Pension and other employee benefits**

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

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

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

#### **k) Income (loss) per share**

Basic income (loss) per common share is calculated by dividing income (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Common shares issued as part of the consideration transferred in the common control transaction are included in the weighted average number of common shares starting from the date that common control was established.

Diluted income (loss) per common share is calculated giving effect to the potential dilution that would occur if all outstanding dilutive instruments were exercised or converted to common shares. The weighted average number of common shares outstanding during the period is adjusted by the incremental number of shares calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the volume weighted average market price during the period.

#### **l) Intangibles**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost

## **STELCO HOLDINGS INC.**

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less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statements of Income (Loss) in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level, or more frequently if indicators of impairment exist. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is considered a change in accounting estimate and accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statements of Income (Loss) when the asset is derecognized.

#### **m) Leases**

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

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

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

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

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

#### **n) Segment reporting**

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

#### **o) Changes in accounting policies**

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

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

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

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#### IFRS 9 - Financial instruments (IFRS 9)

IFRS 9 introduced new requirements for the classification, measurement and impairment of financial instruments as well as hedge accounting. The Company adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption of this standard did not have an impact on the Consolidated Financial Statements.

#### Weighted average method for raw material inventory cost measurement

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

#### **p) Accounting standards issued but not yet effective**

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

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

#### IFRS 16 - Leases (IFRS 16)

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. Obligations under operating leases and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. In connection with Stelco Inc.'s land and buildings acquisition from Legacy Lands Limited Partnership (the Land Vehicle) and concurrent termination of associated lease arrangements discussed further in note 11, the Company does not expect a significant impact to Stelco Holdings' Consolidated Financial Statements on adoption of this IFRS.

#### IFRIC 23 - Uncertainty over Income Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, and the Company does not expect a significant impact to Stelco Holdings' Consolidated Financial Statements on adoption of this IFRS.

## **4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

#### **a) Employee benefit commitment**

This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 17.

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#### **b) Pension and other post-employment benefits**

The cost of defined benefit pension plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and projected retirement age. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 26.

#### **c) Allowance for doubtful accounts**

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

#### **d) Impairment of non-financial assets**

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

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

#### **e) Income taxes**

The Company is subject to income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to note 25 for the carrying value of current and deferred income tax assets and liabilities.

## **5. STELCO ALGAE HOLDINGS INC.**

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

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

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

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

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**YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017****6. CASH AND CASH EQUIVALENTS**

As at	<b>December 31, 2018</b>		December 31, 2017	
Cash at banks	\$	<b>438</b>	\$	215
Short-term deposits		—		35
<b>Total cash and cash equivalents</b>	<b>\$</b>	<b>438</b>	<b>\$</b>	<b>250</b>

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

**7. RESTRICTED CASH**

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

**8. TRADE AND OTHER RECEIVABLES**

As at	<b>December 31, 2018</b>		December 31, 2017	
Trade receivables	\$	<b>249</b>	\$	202
Other receivables		<b>3</b>		4
Allowance for doubtful accounts		—		(2)
<b>Total trade and other receivables</b>	<b>\$</b>	<b>252</b>	<b>\$</b>	<b>204</b>

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

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

In order to minimize the credit risk associated with trade and other receivables, the Company performs regular credit reviews for all customers with significant credit limits. Trade and other receivables are analyzed on a case by case basis taking into account a customer's past credit history as well as its current ability to pay and uncollectible amounts are recorded as an allowance for doubtful accounts. Refer to note 27 for further details of the Company's credit risk management.

**9. INVENTORIES**

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

The Company did not recognize any write-down of inventory costs during the year ended December 31, 2018 or the six months ended December 31, 2017. Refer to note 21 for the cost of inventories recognized within cost of goods sold.

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**10. PREPAID EXPENSES**

As at	December 31, 2018		December 31, 2017	
Advance payments to vendors	\$	23	\$	16
Prepaid insurance		4		2
Other		1		—
<b>Total prepaid expenses</b>	<b>\$</b>	<b>28</b>	<b>\$</b>	<b>18</b>

**11. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
<b>As at June 30, 2017</b>	\$ —	\$ —	\$ 242	\$ 5	\$ 21	\$ 2	\$ 270
Transfers	—	—	11	—	—	(11)	—
Additions	—	—	2	(1)	—	20	21
Disposals	—	—	(1)	—	—	—	(1)
<b>As at December 31, 2017</b>	\$ —	\$ —	\$ 254	\$ 4	\$ 21	\$ 11	\$ 290
Transfers	—	1	32	4	—	(37)	—
Additions	93	4	12	—	8	87	204
Acquisition of assets under finance lease	—	21	—	—	(21)	—	—
<b>As at December 31, 2018</b>	<b>\$ 93</b>	<b>\$ 26</b>	<b>\$ 298</b>	<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ 61</b>	<b>\$ 494</b>

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
<b>As at June 30, 2017</b>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Depreciation	—	—	11	—	—	—	11
<b>As at December 31, 2017</b>	—	—	11	—	—	—	11
Depreciation	—	—	33	1	1	—	35
<b>As at December 31, 2018</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 44</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 46</b>

**Net book value**

<b>As at December 31, 2018</b>	<b>\$ 93</b>	<b>\$ 26</b>	<b>\$ 254</b>	<b>\$ 7</b>	<b>\$ 7</b>	<b>\$ 61</b>	<b>\$ 448</b>
As at December 31, 2017	\$ —	\$ —	\$ 243	\$ 4	\$ 21	\$ 11	\$ 279

**Acquisition of Land and Buildings**

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

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

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### Assets under finance leases

Included in property, plant and equipment are certain buildings, infrastructure and equipment acquired under finance lease arrangements. As at December 31, 2018, the net carrying amounts of these assets under finance leases was \$7 million (December 31, 2017 - \$21 million).

## 12. INTANGIBLE ASSETS

Net book value		Indefinite life trademark	Finite life order backlog	Total
As at June 30, 2017	\$	7	\$ 1	\$ 8
Amortization		—	1	1
As at December 31, 2017	\$	7	\$ —	\$ 7
As at December 31, 2018	\$	7	\$ —	\$ 7

## 13. INVESTMENT IN JOINT VENTURES

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

#### Assets and liabilities of the joint ventures

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

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

#### Statement of loss of the joint ventures

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

As at		December 31, 2018	December 31, 2017
Net revenue	\$	76	\$ 34
Depreciation		(2)	(1)
Net loss		(4)	(2)

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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#### Equity investment in the joint ventures

As at	December 31, 2018	December 31, 2017
<b>Balance, beginning of year</b>	\$ 5	\$ 6
Share of net loss	(2)	(1)
Remeasurement gain on defined benefit pension obligations within OCI	3	—
<b>Balance, end of year</b>	\$ 6	\$ 5

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

#### 14. TRADE AND OTHER PAYABLES

As at	December 31, 2018	December 31, 2017
Trade payables	\$ 219	\$ 185
Inventory monetization arrangement	216	121
Payables to related parties <sup>1</sup>	1	1
Other payables	—	2
<b>Total trade and other payables</b>	\$ 436	\$ 309

<sup>1</sup> Refer to note 33 for further details.

#### Trade payables

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

#### Inventory monetization arrangement

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

In November 2018, Stelco Inc. entered into an amended inventory monetization arrangement for which terms have remained substantially similar to the original agreement. Amendments to the arrangement include, but are not limited to the following: i) adjusted volume quantity limits of raw materials eligible to be financed through this arrangement, ii) change of the original financing rate to LIBOR plus a margin of 2.50%, and iii) the amended agreement has an option for Stelco to terminate the arrangement early on either July 31, 2019 or August 30, 2019. Amounts advanced under the amended inventory monetization arrangement are required to be repaid on the earlier of: (i) the early termination of the facility; and (ii) the expiry of the facility on September 30, 2019. As of December 31, 2018, US\$158 million (December 31, 2017 - US\$97 million) was drawn on the facility.

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

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YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

#### 15. OTHER LIABILITIES

As at	December 31, 2018	December 31, 2017
Salaries and benefits payable	\$ 33	\$ 31
Finance lease obligations	8	25
Post-employment benefits	7	8
Other liabilities	3	3
Interest payable	2	1
<b>Total other liabilities</b>	<b>\$ 53</b>	<b>\$ 68</b>
<b>Total current other liabilities</b>	<b>\$ 40</b>	<b>\$ 33</b>
<b>Total non-current other liabilities</b>	<b>\$ 13</b>	<b>\$ 35</b>

#### Finance lease obligations

As at December 31, 2018, the Company has a finance lease obligation with a carrying value of \$8 million (December 31, 2017 - \$25 million, includes buildings and equipment leases), associated with certain equipment on the Company's Consolidated Balance Sheets. During June 2018, Stelco acquired the Lands from the Land Vehicle resulting in the derecognition of the Company's building finance lease obligation of \$24 million. Refer to note 11 for further details.

#### 16. ASSET-BASED LENDING FACILITY

In connection with Stelco's emergence from CCAA, Stelco entered into an asset-based lending (ABL) agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of \$375 million. The amount available to be drawn under the ABL credit facility will vary from time to time, based upon a borrowing base determined with reference to the Company's trade receivables and certain inventory balances. At December 31, 2018, the available borrowing base was \$303 million.

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

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

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

#### 17. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

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

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

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#### Employee benefit commitment

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

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

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

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

Future employee benefit commitment payments are estimated as follows:

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

#### Mortgage payable

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

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

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

**18. PROVISIONS**

	Environmental remediation	
<b>As at January 1, 2018</b>	<b>\$</b>	<b>5</b>
Additions		—
Settlements		—
<b>As at December 31, 2018</b>	<b>\$</b>	<b>5</b>
Current	\$	—
Non-current	\$	<b>5</b>
<b>As at January 1, 2017</b>	<b>\$</b>	<b>5</b>
Additions		1
Settlements		(1)
<b>As at December 31, 2017</b>	<b>\$</b>	<b>5</b>
Current	\$	—
Non-current	\$	<b>5</b>

**Environmental remediation**

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

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

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#### 19. 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 preferred shares have been issued to date. The common shares are entitled to dividends, as and when declared by the Board of Directors. The following common shares are outstanding at each respective date:

As at	December 31, 2018	December 31, 2017
Common shares		
Outstanding (in thousands)	88,757	88,814
Carrying amount	\$ 512	\$ 512
Treasury shares		
Outstanding (in thousands)	57	—
Carrying amount	\$ 1	—

#### *Dividends to common shareholders*

During the year ended December 31, 2018, the Company declared and paid dividends to common shareholders of \$36 million or \$0.40 per common share. In addition, during August 2018 the Company declared and paid a special dividend to common shareholders of \$150 million or \$1.69 per common share.

On February 15, 2019, Stelco Holdings' Board of Directors approved a special dividend of \$1.13 per common share, payable on March 20, 2019, to the shareholders of record as of March 13, 2019 and a dividend of \$0.10 per common share, payable on March 22, 2019 to shareholders of record as of March 13, 2019.

#### *Normal Course Issuer Bid*

On November 16, 2018, Stelco Holdings received approval from the Toronto Stock Exchange (TSX) of its notice of intention to launch a normal course issuer bid (NCIB). Under the NCIB, Stelco Holdings may purchase up to a maximum of 4,440,681 common shares or approximately 5% of its 88,813,637 common shares outstanding as of November 13, 2018. The Company intends to fund the purchases primarily from excess working capital and common shares repurchased under the NCIB will be canceled.

Repurchases will be made through the facilities of the TSX as well as through other designated exchanges and alternative trading systems in Canada in accordance with applicable regulatory requirements. The price paid for such repurchased shares will be the market price of such shares at the time of acquisition or such other price as may be permitted by the TSX.

#### *Treasury shares*

During the year ended December 31, 2018, 56,600 common shares were repurchased by the Company under the NCIB, which had not yet been canceled at December 31, 2018, for a total cost of \$1 million.

#### 20. REVENUE FROM SALE OF GOODS

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

	Year ended December 31, 2018	Six months ended December 31, 2017
Steel products	\$ 2,330	\$ 751
Non-steel products	130	37
<b>Total</b>	<b>\$ 2,460</b>	<b>\$ 788</b>

Revenue by geographical location is comprised of:

	Year ended December 31, 2018	Six months ended December 31, 2017
Canada	\$ 1,862	\$ 677
United States	598	111
<b>Total</b>	<b>\$ 2,460</b>	<b>\$ 788</b>

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**21. COST OF GOODS SOLD**

Cost of goods sold is comprised of:

	Year ended December 31, 2018	Six months ended December 31, 2017
Cost of inventories:		
Steel products	\$ 1,732	\$ 643
Non-steel products	77	27
Fixed overhead and other costs <sup>1</sup>	84	34
Depreciation	35	12
<b>Total</b>	<b>\$ 1,928</b>	<b>\$ 716</b>

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

For the year ended December 31, 2018, cost of goods sold includes the impact of a \$6 million inventory revaluation adjustment recorded in the first quarter of 2018 which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the period ended March 31, 2018.

**22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses is comprised of:

	Year ended December 31, 2018	Six months ended December 31, 2017
Enterprise resource planning system <sup>1</sup>	\$ 18	\$ 5
Employee (active) salary and benefits expense	17	6
Management fees <sup>2</sup>	7	3
Professional, consulting and legal fees	9	4
Initial public offering costs	—	20
Other <sup>3</sup>	5	9
<b>Total</b>	<b>\$ 56</b>	<b>\$ 47</b>

<sup>1</sup> Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.

<sup>2</sup> Refer to note 33 for further details.

<sup>3</sup> Includes corporate and travel related expenses.

**23. FINANCE COSTS**

Finance costs are comprised of:

	Year ended December 31, 2018	Six months ended December 31, 2017
Remeasurement of employee benefit commitment <sup>1</sup>	\$ 144	\$ 10
Accretion of employee benefit commitment <sup>1</sup>	43	17
Interest on loans and borrowings	14	2
Accretion expense related to finance lease obligations	1	2
Foreign exchange (gain) loss	14	(1)
Other	(1)	3
<b>Total</b>	<b>\$ 215</b>	<b>\$ 33</b>

<sup>1</sup> Refer to note 17 for further details.

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

**YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017****24. FINANCE AND OTHER INCOME (LOSS)**

Finance and other income (loss) is comprised of:

	Year ended December 31, 2018	Six months ended December 31, 2017
Loss on commodity-based swaps	\$ (10)	\$ —
Finance income	4	—
Other income	9	—
<b>Total</b>	<b>\$ 3</b>	<b>\$ —</b>

*Commodity-based swaps*

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

*Other income*

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

**25. INCOME TAXES**

The major components of income tax expense for the period ended are as follows:

	Year ended December 31, 2018	Six months ended December 31, 2017
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences	\$ 63	\$ 6
Previously unrecognized deferred tax assets	(63)	(6)
<b>Income tax expense</b>	<b>\$ —</b>	<b>\$ —</b>

**Reconciliation of Effective Tax Rate:**

	Year ended December 31, 2018	Six months ended December 31, 2017
Income (loss) before income taxes	\$ 253	\$ (15)
Combined Canadian federal and provincial income tax rate	25%	25%
<b>Income tax expense (recovery) based on statutory rate</b>	<b>63</b>	<b>(4)</b>
<b>Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:</b>		
Permanent differences:		
Restructuring gain	—	(3)
Other	—	1
Unrecognized deferred tax assets	(63)	—
Write down of deferred tax assets	—	6
<b>Income tax expense</b>	<b>\$ —</b>	<b>\$ —</b>

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**Deferred tax**

Deferred tax relates to the following:

As at	December 31, 2018	December 31, 2017
Non-capital and capital loss carry-forwards	\$ 95	\$ 209
Employee benefit commitment	122	88
Deductible SRED expenditures	9	9
Financing fee	3	4
Provisions	—	2
Impairment provision of investment in subsidiaries	2	1
Land lease	—	1
Building finance lease	—	1
Plant and equipment	6	1
Deferred tax assets not recognized	(237)	(314)
<b>Deferred tax asset</b>	<b>\$ —</b>	<b>\$ 2</b>
Intangibles	—	(2)
Inventory	—	—
<b>Deferred tax liability</b>	<b>\$ —</b>	<b>\$ (2)</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ —</b>	<b>\$ —</b>

**Reconciliation of movements in the deferred tax asset (liability) as at:**

As at	December 31, 2018	Movement	December 31, 2017	Movement	June 30, 2017
Non-capital and capital loss carry-forwards	\$ 95	\$(114)	\$ 209	\$(14)	\$ 223
Employee benefit commitment	122	34	88	7	81
Deductible SRED expenditures	9	—	9	—	9
Financing fee	3	(1)	4	4	—
Provisions	—	(2)	2	(2)	4
Impairment provision of investment in subsidiaries	2	1	1	—	1
Land lease	—	(1)	1	1	—
Building finance lease	—	(1)	1	1	—
Plant and equipment	6	5	1	—	1
Deferred tax assets not recognized	(237)	77	(314)	1	(315)
Deferred tax asset	\$ —	\$(2)	\$ 2	\$(2)	\$ 4
Intangibles	—	2	(2)	—	(2)
Inventory	—	—	—	2	(2)
Deferred tax liability	\$ —	\$ 2	\$(2)	\$ 2	\$(4)
<b>Net deferred tax asset (liability)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### Non-capital loss carry forwards:

As at	December 31, 2018	December 31, 2017
2032	\$ —	\$ 30
2033	—	400
2034	136	164
2035	238	238
2036	—	—
2037	2	4
2038	4	—
<b>Total</b>	<b>\$ 380</b>	<b>\$ 836</b>

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

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

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

## 26. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

The other post-employment benefits is recorded within other liabilities (note 15).

### Establishment of new defined benefit pension plans

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

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

### Other non-pension employee benefit plans

Stelco sponsors an unfunded compensated absence plan that provides non-pension benefits and is the administrator of the plan. Funded Status and other post-employment benefit reports for the compensated absences plan (Hamilton and Lake Erie) are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate.

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

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

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**Net benefit expense**

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

	Year ended December 31, 2018	Six months ended December 31, 2017
Pension plans		
Service costs	\$ 7	\$ —
	\$ 7	\$ —
Other non-pension employee benefit plans		
Service costs	\$ 1	\$ —
Past service costs	—	2
	\$ 1	\$ 2
<b>Net benefit expense</b>	<b>\$ 8</b>	<b>\$ 2</b>

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

	Year ended December 31, 2018	Six months ended December 31, 2017
Pension plans		
Effect of experience adjustments	\$ 1	\$ —
	\$ 1	\$ —
Other non-pension employee benefit plans		
Effect of experience adjustments	\$ 1	\$ —
	\$ 1	\$ —
<b>Remeasurement effects recognized in OCI</b>	<b>\$ 2</b>	<b>\$ —</b>

**Reconciliation of defined benefit obligations**

	Pension plans		Other non-pension employee benefit plans	
	2018	2017	2018	2017
As at December 31,				
<b>Beginning of period</b>	\$ —	\$ —	\$ (8)	\$ —
Current service costs	(7)	—	(1)	—
Past service costs	—	—	—	(8)
Benefits paid	—	—	1	—
Actuarial gain (loss)	1	—	1	—
<b>End of period</b>	<b>\$ (6)</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (8)</b>

**Reconciliation of fair value of plan assets**

	Pension plans		Other non-pension employee benefit plans	
	2018	2017	2018	2017
As at December 31,				
<b>Beginning of period</b>	\$ —	\$ —	\$ —	\$ —
Employer contributions	4	—	1	—
Benefits paid	—	—	(1)	—
<b>End of period</b>	<b>\$ 4</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Defined benefit obligation, net</b>	<b>\$ (2)</b>	<b>\$ —</b>	<b>\$ (7)</b>	<b>\$ (8)</b>

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### Categories of plan assets:

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

#### Key assumptions

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

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

#### Sensitivity analysis - obligation

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

## 27. RISK MANAGEMENT

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

#### Price risk

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

#### Foreign currency risk

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

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

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

#### Interest rate risk

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

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

#### **Credit risk**

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

##### *Trade receivables*

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

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

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL. Trade receivables together with the associated allowance, are written off when there is no realistic prospect of future recovery.

##### *Concentration of credit*

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

#### **Liquidity risk**

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

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

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

#### **Pensions - defined benefit plans**

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

**STELCO HOLDINGS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017****28. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	<b>Year ended December 31, 2018</b>	<b>Six months ended December 31, 2017</b>
Changes in non-cash working capital:		
Trade and other receivables	\$ (47)	\$ (35)
Inventories	(17)	(166)
Prepaid expenses	(8)	41
Trade and other payables	27	94
Other liabilities	6	6
	<b>\$ (39)</b>	<b>\$ (60)</b>
Changes in other operating activities:		
Pension benefits	\$ 2	\$ 8
Employee benefit commitment <sup>1</sup>	(53)	(12)
Other	14	3
	<b>\$ (37)</b>	<b>\$ (1)</b>
Change in non-cash working capital and other operating activities	<b>\$ (76)</b>	<b>\$ (61)</b>

1. Refer to note 17.

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

	<b>Year ended December 31, 2018</b>	<b>Six months ended December 31, 2017</b>
Capital expenditures on property, plant and equipment:		
Property, plant and equipment additions	\$ 204	\$ 21
Additions not affecting cash:		
Mortgage payable from acquisition of:		
Land	(89)	—
Buildings (incremental cost from previous carrying value as a finance lease)	(4)	—
Finance leases - infrastructure and equipment	(8)	—
Change in trade and other payables and other liabilities relating to construction in progress and other capital additions	(2)	3
Capital expenditures on property, plant and equipment	<b>\$ 101</b>	<b>\$ 24</b>

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

**29. NET INCOME (LOSS) PER SHARE**

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

	<b>Year ended December 31, 2018</b>	<b>Six months ended December 31, 2017</b>
Net income (loss)	\$ 253	\$ (15)
Weighted average number of common shares outstanding – basic and diluted (in thousands)	88,814	79,034
<b>Net income (loss) per share – basic and diluted</b>	<b>\$ 2.85</b>	<b>\$ (0.19)</b>

## STELCO HOLDINGS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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YEAR ENDED DECEMBER 31, 2018 AND SIX MONTHS ENDED DECEMBER 31, 2017

### 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 438	\$ 438	\$ 250	250
Restricted cash	8	8	12	12
Trade and other receivables	252	252	204	204
Financial liabilities:				
Trade and other payables	\$ 436	\$ 436	\$ 309	309
Other liabilities	53	53	68	68
Obligations to independent employee trusts				
Employee benefit commitment	478	469	344	358
Mortgage payable	113	107	—	—

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

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

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

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

### 31. CAPITAL MANAGEMENT

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

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

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

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

As at	<b>December 31, 2018</b>	December 31, 2017
Amounts drawn under inventory monetization arrangement	\$ 216	\$ 121
Amounts available under ABL facility	303	269
<b>Total</b>	<b>\$ 519</b>	<b>\$ 390</b>
Total equity	568	497
<b>Total capital</b>	<b>\$ 1,087</b>	<b>\$ 887</b>

**32. COMMITMENTS AND CONTINGENCIES**

**Operating leases**

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

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

As at	<b>December 31, 2018</b>	December 31, 2017
One year	\$ 5	\$ 4
2-5 years	2	24
5+ years	—	138
<b>Total</b>	<b>\$ 7</b>	<b>\$ 166</b>

**Claims and litigation**

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

**Purchase commitments**

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

**Cap and trade regulation update**

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

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

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

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

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

**33. RELATED PARTY TRANSACTIONS**

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

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

	<b>Year ended December 31, 2018</b>	Six months ended December 31, 2017
<b>Purchases of services</b>		
Joint ventures	\$ 15	\$ 10
Bedrock Industries B.V	7	5
<hr/>		
As at	<b>December 31, 2018</b>	December 31, 2017
<b>Amounts payable to related parties</b>		
Bedrock Industries B.V	\$ 1	\$ 1

**Subsidiaries**

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

**Key management personnel**

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

During the year ended December 31, 2018, the Company recorded \$4 million (December 31, 2017 - \$2 million) as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.

During the year ended December 31, 2018, the company recorded \$0.1 million (six months ended December 31, 2017 - \$0.1 million) in directors' fees.

**Long-term incentive plan**

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

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

*Restricted Share Units*

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

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 payment date to the participant in respect of vested RSUs within 30 days of the vesting date. Dividends declared on common shares accrue to the RSU holder in the form of additional RSUs.

On December 31, 2018, 34,528 restricted share units were granted to certain employees, including to members of Stelco's ESLT, with a grant date fair value of \$15.05 per unit. These RSUs are cash-settled awards with one third of the RSUs vesting on the

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first vesting date, February 21, 2019, and the remaining two thirds vesting on the first and second year anniversaries respectively of the initial vesting date. The cost of these share based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability recorded in other liabilities on the Consolidated Balance Sheets. The liability is remeasured at fair value at each reporting period date with the vested changes in fair value recorded in the Consolidated Statements of Income.

#### *Share options*

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

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

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

#### **Deferred share unit plan**

The Company has a deferred share unit (DSU) plan for its independent directors which provides that each independent director receives, on each date that the director fees are payable, an amount of DSUs which the director has elected. Each independent director can elect annually a specified percentage of director fees or compensation as DSUs. The number of DSUs granted to an independent director is based on the closing price of the Company's common shares on the Toronto Stock Exchange on the grant date. At such time as an independent director ceases to be a director, the Company will make a cash payment on the outstanding DSUs. As of December 31, 2018, there were 21,683 DSUs outstanding, for which the Company recognized a liability of \$0.3 million.







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